

*In the opinion of Bond Counsel, under existing law, interest on the Series 2002 D Bonds is excluded from gross income under Section 103 of the Internal Revenue Code of 1986, as amended, for federal tax purposes. Such excludability is conditioned on continuing compliance with certain tax covenants of the Bond Bank and the Qualified Entity, all as defined and described herein. In the opinion of Bond Counsel, under existing law, interest on the Series 2002 D Bonds is exempt from income taxation in the State of Indiana for all purposes except the Indiana financial institutions tax. See "TAX MATTERS" and "ORIGINAL ISSUE DISCOUNT" herein and Appendix C attached hereto.*

**Standard & Poor's Ratings: AAA (Insured)  
A+ (Uninsured)**

**See "RATINGS" herein**

**NEW ISSUE**

**\$60,000,000**  
**Indiana Bond Bank**  
**Special Program Bonds, Series 2002 D**  
**(Hendricks Community Hospital Financing Program)**

**Dated: Date of Delivery**

**Due: April 1, as shown inside this cover**

The Series 2002 D Bonds are issuable as fully registered Bonds without coupons in denominations of \$5,000 and integral multiples thereof. Interest on the Series 2002 D Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2002. The Indiana Bond Bank Special Program Bonds, Series 2002 D (the "Series 2002 D Bonds") will bear interest from their date to their respective maturities in the amounts and at the rates set forth on the inside front cover. The Series 2002 D Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 2002 D Bonds will be made in book-entry only form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Series 2002 D Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Series 2002 D Bonds. Interest on the Series 2002 D Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2002. The principal of, redemption premium, if any, and interest on the Series 2002 D Bonds will be paid directly to DTC by National City Bank of Indiana, as trustee (the "Trustee") under the Indenture, as defined and described herein, so long as DTC or its nominee is the registered owner of the Series 2002 D Bonds. The final disbursement of such payments to the Beneficial Owners of the Series 2002 D Bonds will be the responsibility of the DTC Participants and the Indirect Participants, all as defined and more fully described herein under the caption "THE SERIES 2002 D BONDS-Book-Entry Only System."

The Series 2002 D Bonds are issued by the Bond Bank for the principal purpose of providing funds for the making of a loan to The Board of Trustees of Hendricks County Hospital d/b/a Hendricks Community Hospital (the "Qualified Entity"), as more fully described in this Official Statement.

The Series 2002 D Bonds are subject to optional redemption under certain circumstances of casualty loss to or condemnation of the property of the Qualified Entity in whole or in part at any time, and the Series 2002 D Bonds maturing after April 1, 2012, are also subject to optional redemption in whole or in part on any date on or after April 1, 2012. The Term Bonds described below are further subject to mandatory sinking fund redemption prior to maturity. All such redemptions of the Series 2002 D Bonds are more fully described in this Official Statement under the caption "DESCRIPTION OF THE SERIES 2002 D BONDS--Redemption."

**The Series 2002 D Bonds are payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture, as more fully described herein. The Series 2002 D Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana or any political subdivision thereof, including the Qualified Entity, under the constitution and laws of the State of Indiana or a pledge of the faith, credit and taxing power of the State of Indiana or any political subdivision thereof, including the Qualified Entity. The sources of payment of, and security for, the Series 2002 D Bonds are more fully described herein. The Bond Bank has no taxing power.**

Payment of the principal of and interest on the Series 2002 D Bonds when due will be insured as described herein by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Series 2002 Bonds.

**Ambac**

A DETAILED MATURITY SCHEDULE IS SET FORTH ON THE INSIDE COVER.

The Series 2002 D Bonds are offered when, as and if issued by the Bond Bank and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of legality of the Series 2002 D Bonds by Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed upon for the Bond Bank by its counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana, for the Qualified Entity by its counsel, Deckard & O'Brien, Danville, Indiana, and for the Underwriters by their counsel, Hall, Render, Killian, Heath & Lyman, P.S.C., Indianapolis, Indiana. It is expected that the Series 2002 D Bonds in definitive form will be available for delivery to The Depository Trust Company in New York, New York, on or about July 10, 2002.

**RBC Dain Rauscher**

**City Securities Corporation**

**Lancaster Pollard & Co.**

**June 5, 2002**

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.**

**\$60,000,000**  
**Indiana Bond Bank**  
**Special Program Bonds, Series 2002 D**  
**(Hendricks Community Hospital Financing Program)**

**Dated: Date of Delivery**

**Due: April 1, as shown below**

**MATURITIES, AMOUNTS, INTEREST RATES AND PRICES**

<b><u>Year</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>		<b><u>Year</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>
2003	\$1,090,000	3.000%	1.90%		2012	\$1,550,000	5.000%	4.36%
2004	1,120,000	3.250	2.43		2013	1,630,000	5.375	4.45*
2005	1,160,000	3.500	2.91		2014	1,715,000	5.375	4.57*
2006	1,200,000	4.000	3.23		2015	1,805,000	5.375	4.67*
2007	1,245,000	4.000	3.50					
2008	1,295,000	4.000	3.78		2018	2,115,000	5.375	4.92*
2009	1,350,000	4.250	3.97		2019	2,230,000	5.000	5.07
2010	1,405,000	5.000	4.16		2020	2,340,000	5.000	5.14
2011	1,475,000	5.000	4.26					

**\$3,910,000 5.375% Term Bonds due April 1, 2017 – Yield 4.805%\***

**\$7,775,000 5.375% Term Bonds due April 1, 2023 - Yield 5.230%\***

**\$9,085,000 5.250% Term Bonds due April 1, 2026 - Yield 5.340%**

**\$14,505,000 5.250% Term Bonds due April 1, 2030 – Yield 5.380%**

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\*Priced to the optional redemption date of April 1, 2012.

## REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the Indiana Bond Bank or the Underwriters to give information or to make any representations with respect to the Series 2002 D Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from The Board of Trustees of Hendricks County Hospital, the Bond Insurer, DTC and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed to be the representation of the Indiana Bond Bank. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bond Bank, or the Qualified Entity, since the date hereof.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2002 D BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE SERIES 2002 D BONDS ARE NOT BEING REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION IN RELIANCE UPON AN EXEMPTION FROM THE SECURITIES ACT OF 1933, AS AMENDED.

THE SERIES 2002 D BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE INDENTURE AND THE MASTER INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2002 D BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2002 D BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES NOR THE SECURITIES AND EXCHANGE COMMISSION HAS PASSED UPON THE MERITS OF THE SERIES 2002 D BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended (the "*Exchange Act*"), and Section 27A of the United States *Securities Act of 1933*, as amended (the "*Securities Act*"). Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, among others, those appearing under the captions "The Project," "Competing Medical Facilities," "Litigation" and "Management's Discussion of Financial Results" in **Appendix B** to this Official Statement; and the statements under the caption "PARTICULAR RISKS ASSOCIATED WITH THE QUALIFIED OBLIGATION – Health Insurance Portability and Accountability Act" in the forepart of this Official Statement.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE HOSPITAL DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN THEIR EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

# OFFICIAL STATEMENT

relating to

**\$60,000,000**

## **Indiana Bond Bank Special Program Bonds, Series 2002 D (Hendricks Community Hospital Financing Program)**

### INTRODUCTION

The purpose of this Official Statement, including its Appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its Indiana Bond Bank Special Program Bonds, Series 2002 D (Hendricks Community Hospital Financing Program) (the "Series 2002 D Bonds"), issued in the aggregate principal amount of \$60,000,000.

**This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and all appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2002 D Bonds to potential investors is made only by means of the entire Official Statement.**

*Certain capitalized terms not otherwise defined herein are defined in Appendix E hereto.*

#### **The Bond Bank**

The Bond Bank was established in 1984 as a separate body corporate and politic, constituting an instrumentality of the State of Indiana (the "State") for the public purposes set forth under the provisions of Indiana Code 5-1.5, as amended (the "Act"). The Bond Bank is not an agency of the State, is separate from the State in its corporate and sovereign capacity and has no taxing power. The Bond Bank is governed by a Board of seven Directors including the Treasurer of State, who serves as Chairman Ex Officio, and the Director of the State Department of Financial Institutions, who serves as Director Ex Officio, and five additional Directors, each appointed by the Governor of the State.

Pursuant to the Act, the purpose of the Bond Bank is to assist "qualified entities," defined in the Act to be political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1(b), certain not-for-profit utilities, as defined in Indiana Code 8-1-2-125, leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, as defined in the Act, organizations, associations or trusts with members, participants or beneficiaries that are all individually qualified entities and any commission, authority or instrumentality of the State, through programs of purchasing the bonds, notes or evidences of indebtedness of such qualified entities, or leases, certificates or other evidences of participation in lessors' interests in and rights under leases with qualified entities, or obligations of qualified entities under agreements between such qualified entities and the Bond Bank. Under the Act, "qualified entities" can also include such entities as all State universities, State commissions and authorities, cities, towns, counties, school corporations, library corporations and not-for-profit corporations and associations which lease facilities or equipment to such entities. The Board of Trustees of Hendricks Community Hospital, described in Appendix B (the "Qualified Entity"), is such a qualified entity.

## **Sources of Payment and Security for the Series 2002 D Bonds**

The Series 2002 D Bonds will be issued under and secured by a Trust Indenture dated as of June 1, 2002 (the "Indenture"), between the Bond Bank and National City Bank of Indiana, Indianapolis, Indiana, as Trustee (the "Trustee"). The principal of, redemption premium, if any, and interest on any and all of the Series 2002 D Bonds, together with any refunding bonds (the "Refunding Bonds") that may be authorized and issued by the Bond Bank under the Indenture on a parity with the Series 2002 D Bonds (collectively, the "Bonds"), are payable from those revenues and funds of the Bond Bank which, together with the qualified obligations of the Qualified Entity under the Loan Agreement and the Series 2002 Note, as defined and described herein (collectively, the "Qualified Obligation"), are pledged pursuant to the Indenture for the benefit of the owners of the Bonds without priority. The faith, credit and taxing power of the State are not pledged to the payment of the principal of, premium, if any, and interest on any of the Bonds. The Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State or of any political subdivision thereof, including the Qualified Entity. Certain financial information on the State is set forth in Appendix B to this Official Statement. However, as discussed above, the Series 2002 D Bonds do *not* represent a debt, liability or loan or pledge of the credit of the State. Prospective purchasers should use the information set forth in Appendix B only for purposes of general and background reference. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from any other obligations issued by the Bond Bank.

The Series 2002 D Bonds are secured by the pledge of the Trust Estate established under the Indenture (the "Trust Estate"), defined to be all cash and securities in the funds and accounts established by the Indenture (except the Rebate Fund, as described herein) (the "Funds" and "Accounts") and the investment earnings thereon and all proceeds thereof and the Qualified Obligation and the earnings thereon and the proceeds thereof. All Bonds will be secured equally and ratably by all of the foregoing. The sources of payment for the Bonds are further described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS," and in Appendix B.

Proceeds of the Series 2002 D Bonds will be used by the Bond Bank to make a loan to the Qualified Entity pursuant to a Loan Agreement dated as of June 1, 2002 (the "Loan Agreement"), by and between the Bond Bank and the Qualified Entity. The Qualified Entity's obligation to make payments under the Loan Agreement is evidenced and secured by its Series 2002 Note (the "Series 2002 Note"), which is issued under and secured by the terms of a Master Trust Indenture dated as of March 15, 1992 (the "Master Indenture"), between the Qualified Entity and Bank One Trust Company, National Association, successor to Bank One Indianapolis NA, Indianapolis, Indiana, as trustee (the "Master Trustee"). The sources of payment on the Qualified Obligation are further described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS" and Appendix B.

The Indenture provides that in order to further secure the payment of principal of and interest on the Series 2002 D Bonds, the Bond Bank will establish thereunder a debt service reserve fund (the "Debt Service Reserve Fund"), which will be funded by the purchase of a surety bond (the "DSRF Surety Bond") issued by Ambac Assurance Corporation. (The amount required to be on deposit in the Debt Service Reserve Fund as of any given date shall be referred to herein as the "Debt Service Reserve Requirement.") See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS -- Debt Service Reserve Fund" and "—DSRF Surety Bond" for further discussion of the Debt Service Reserve Fund.

The Act provides that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank prior to December 1 of any year, as may be necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any fiscal year of the Bond Bank ("Fiscal Year") in which the amount in the Debt Service Reserve Fund is projected to be less than the Debt Service Reserve Requirement. However, nothing in these provisions or in any other provision of the Act creates a debt or an obligation on the part of the State to make any payments or appropriations to or for the use of the Bond Bank. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS -- State Appropriations Mechanism" and "GENERAL RISKS TO THE OWNERS OF THE SERIES 2002 D BONDS."

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$1,946,330,000 in separate program obligations. All such obligations are secured separately and independently and do not constitute Bonds under the Indenture or for purposes of this Official Statement. The Bond Bank has never failed to punctually pay principal and interest on any previously issued obligations.

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financings for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such additional financings will be secured separately and independently from the Series 2002 D Bonds and will not constitute Bonds.

### **Bond Insurance**

On the date of the delivery of the Series 2002 D Bonds, Ambac Assurance Corporation (the "Bond Insurer") will issue a financial guaranty insurance policy (the "Insurance Policy"). The Insurance Policy unconditionally and irrevocably insures payment of the principal of and interest on the Series 2002 D Bonds when due. No assurance can be given that the Bond Insurer will be able to perform its obligations under the Insurance Policy should it be called upon to do so. See "BOND INSURANCE" and the specimen Insurance Policy attached hereto as Appendix F.

### **Purpose of the Series 2002 D Bonds**

The Series 2002 D Bonds are being issued to provide funds to (i) make a loan to the Qualified Entity pursuant to the Qualified Obligation, (ii) pay for costs of issuance of the Series 2002 D Bonds, including Underwriters' discount and the premium for the Insurance Policy, and (iii) fund the Debt Service Reserve Fund.

### **Authority for Issuance**

The Series 2002 D Bonds are issued pursuant to the provisions of the Act and the Indenture.

### **Description of the Series 2002 D Bonds**

*Denominations, Payment and Registration.* The Series 2002 D Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 each and integral multiples thereof. The Series 2002 D Bonds will be initially dated as of the date of their issuance and delivery, and will bear interest from that date at the rates and will mature on the dates and in the amounts set forth on the cover of this Official Statement. Interest on the Series 2002 D Bonds will be payable semi-annually on April 1 and October 1, commencing October 1, 2002. See "DESCRIPTION OF THE SERIES 2002 D BONDS."

The Series 2002 D Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 2002 D Bonds will be made in book-entry only form. Purchasers of beneficial interests in the Series 2002 D Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Series 2002 D Bonds. Interest on the Series 2002 D Bonds, together with principal of the Series 2002 D Bonds, will be paid by the Trustee directly to DTC, so long as DTC or its nominee is the registered owner of the Series 2002 D Bonds. The final disbursement of such payments to Beneficial Owners of the Series 2002 D Bonds will be the responsibility of the DTC Participants and Indirect Participants, all as defined and more fully described herein. See "DESCRIPTION OF THE SERIES 2002 D BONDS – Book-Entry Only System."

*Redemption.* The Series 2002 D Bonds are subject to optional redemption under certain circumstances of casualty loss or condemnation, in whole or in part, at any time, and the Series 2002 D Bonds maturing after April 1, 2012, are also subject to optional redemption, in whole or in part, on any date on or after April 1, 2012. The Series 2002 D Bonds maturing on April 1, 2017 (the "2017 Term Bonds"), the Series 2002 D Bonds maturing on April 1, 2023 (the "2023 Term Bonds"), the Series 2002 D Bonds maturing on April 1, 2026 (the "2026 Term Bonds"), and the Series 2002 D Bonds maturing on April 1, 2030 (the "2030 Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount thereof, plus accrued

interest to the redemption date, but without premium. For more complete information, including optional redemption premiums and the principal amounts of the 2017 Term Bonds, the 2023 Term Bonds, the 2026 Term Bonds and the 2030 Term Bonds subject to mandatory sinking fund redemption each year, see the caption "DESCRIPTION OF THE SERIES 2002 D BONDS--Redemption," in this Official Statement.

**For a more complete description of the Series 2002 D Bonds and the basic documentation pursuant to which the Series 2002 D Bonds are being issued, see the captions "DESCRIPTION OF THE SERIES 2002 D BONDS," "REVENUES, FUNDS AND ACCOUNTS," and "OPERATION OF FUNDS AND ACCOUNTS," and Appendix D, "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL FINANCING DOCUMENTS" in this Official Statement.**

### **Tax Exemption**

In the opinion of Bond Counsel, under existing law, interest on the Series 2002 D Bonds is excluded from gross income under Section 103 of the Internal Revenue Code of 1986, as amended, for federal tax purposes. Such excludability is conditioned on continuing compliance with certain tax covenants of the Bond Bank and the Qualified Entity, all as defined and described herein. In the opinion of Bond Counsel, under existing law, interest on the Series 2002 D Bonds is exempt from income taxation in the State of Indiana for all purposes except the Indiana financial institutions tax. Interest on the Series 2002 D Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes; however, it is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

For a more complete description of such opinion and certain other tax consequences incident to the ownership of the Series 2002 D Bonds, see the captions "TAX MATTERS" and "ORIGINAL ISSUE DISCOUNT" in this Official Statement. See Appendix C for the proposed form of bond counsel opinion.

### **Professionals Involved in the Offering**

National City Bank of Indiana, Indianapolis, Indiana, will act as Trustee under the Indenture for the Series 2002 D Bonds. Crowe, Chizek and Company LLP, Indianapolis, Indiana, is employed as financial advisor to the Bond Bank with respect to the Series 2002 D Bonds. Crowe, Chizek and Company LLP, Indianapolis, Indiana, is also employed to verify the cash flows of the Bond Bank with respect to the Series 2002 D Bonds. Certain proceedings in connection with the issuance of the Series 2002 D Bonds are subject to the approval of Barnes & Thornburg, Indianapolis, Indiana, bond counsel. Certain legal matters will be passed on for the Qualified Entity by its general counsel, Deckard & O'Brien, Danville, Indiana. Certain legal matters will be passed on for the Bond Bank by its special counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana, and for the Underwriters by their counsel, Hall, Render, Killian, Heath & Lyman, P.S.C., Indianapolis, Indiana. See the caption "LEGAL MATTERS" and "MISCELLANEOUS" in this Official Statement. The Qualified Entity's Financial Advisor is Fischer Advisory Services, Indianapolis, Indiana.

### **Offering and Delivery of the Series 2002 D Bonds**

The Series 2002 D Bonds are being offered by the Underwriters listed on the cover page when, as, and if issued by the Bond Bank and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by bond counsel and the satisfaction of certain other conditions. It is anticipated that the Series 2002 D Bonds in definitive form will be available for delivery to The Depository Trust Company in City, New York, on or about July 10, 2002.

### **Risks to the Owners of the Series 2002 D Bonds**

There are certain risks involved in the ownership of the Series 2002 D Bonds which should be considered by prospective purchasers. The ability of the Bond Bank to pay principal of, redemption premium, if any, and interest on the Series 2002 D Bonds depends primarily upon the receipt by the Bond Bank of Qualified Obligation Payments from the Qualified Entity which is obligated to make such payments to the Bond Bank, together with investment earnings on certain amounts in the Funds and Accounts defined in and established under the Indenture.



There can be no representation or assurance that the Qualified Entity will realize sufficient rates, charges, or other revenues to make the required Qualified Obligation Payments, since the health care industry of which the Qualified Entity is part is subject to particular uncertainties and risks in the realization of such rates, charges and revenues. In addition, the State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund up to the Debt Service Reserve Requirement; however, the State General Assembly is not and cannot be obligated to appropriate any such funds. **Further, factors beyond the control of the Bond Bank may make it difficult or impossible for the State General Assembly to appropriate sufficient funds in a timely fashion to replenish any deficiency in the Debt Service Reserve Fund in order to restore it to the Debt Service Reserve Requirement.** Finally, failure of the Bond Bank and/or the Qualified Entity to comply with certain tax covenants may adversely affect the exempt status of the interest on the Series 2002 D Bonds. See the captions "GENERAL RISKS TO THE OWNERS OF THE SERIES 2002 D BONDS" and "PARTICULAR RISKS ASSOCIATED WITH THE QUALIFIED OBLIGATION" in this Official Statement.

### **Continuing Disclosure**

The Bond Bank and the Hospital will enter into separate undertakings for the benefit of the owners of the Series 2002 D Bonds to provide certain information quarterly and/or annually and to provide notice of certain events to certain information repositories. For further information, see the discussion herein under the caption "CONTINUING DISCLOSURE."

### **Other Information**

This Official Statement speaks only as of its date, and certain information contained herein is subject to change.

Copies of the Indenture and other documents and information are available, upon request, and upon payment to the Bond Bank of a charge for copying, mailing, and handling, from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204, telephone (317) 233-0888.

### **Format of Official Statement**

There follows in this Official Statement a description of the security and sources of payment for the Series 2002 D Bonds, the purposes and operation of the Bond Bank's program to be financed out of the proceeds of the Series 2002 D Bonds, the Bond Bank, and summaries of certain provisions of the Series 2002 D Bonds, the Indenture, the Loan Agreement, the Series 2002 Note, the Master Indenture, the Bond Insurer, the Insurance Policy and certain provisions of the Act. All discussions of the Act and the Indenture are qualified in their entirety by reference to the Act and the Indenture, copies of which are available from the Bond Bank or the Underwriters, and all discussions of the Series 2002 D Bonds are qualified in their entirety by reference to the definitive form and the information with respect to the Series 2002 D Bonds contained in the Indenture. Certain information relating to the State of Indiana is set forth in Appendix A, certain financial and economic information relating to the Qualified Entity is set forth in Appendix B, the proposed form of opinion of bond counsel with respect to the Series 2002 D Bonds is set forth in Appendix C, and summaries of certain provisions of the principal financing documents are set forth in Appendix D. Definitions of certain terms used in this Official Statement are set forth in Appendix E. Each of the Appendices to this Official Statement is an integral part of this Official Statement and should be read in its entirety by any and all owners or prospective owners of the Series 2002 D Bonds.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS**

The Series 2002 D Bonds are payable only out of the Trust Estate. The Indenture creates a continuing pledge of and lien upon the Trust Estate to secure the full and final payment of the principal of, premium, if any, and interest on all of the Series 2002 D Bonds. The Series 2002 D Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the constitution of the State or a pledge of the faith,

credit and taxing power of the State or any political subdivision thereof. The Bond Bank has no taxing power. The sources of payment of, and security for, the Series 2002 D Bonds are more fully described below.

Under the Indenture, the Series 2002 D Bonds are secured by a pledge to the Trustee of the Qualified Obligation and all Qualified Obligation Payments, as described herein. In addition, the Indenture pledges to the payment of the Series 2002 D Bonds all proceeds of the Trust Estate, including without limitation all cash and securities held in the Funds and Accounts created by the Indenture, except for the Rebate Fund, together with investment earnings thereon and proceeds thereof (except to the extent transferred to the Rebate Fund or from such Funds and Accounts under the Indenture), and all other funds, accounts and moneys to be pledged by the Bond Bank to the Trustee as security under the Indenture, to the extent of any such pledge.

### **The Qualified Entity and the Qualified Obligation**

From the proceeds of the Series 2002 D Bonds, the Bond Bank intends to make a loan to the Qualified Entity and pledge to the Trustee the Qualified Obligation of the Qualified Entity.

### **Provisions for Payment of Qualified Obligation**

As more fully described in Appendices B and D hereto, to secure its obligations under the Loan Agreement, the Qualified Entity will issue to the Bond Bank pursuant to the Master Indenture a Series 2002 Note in a principal amount equal to the aggregate principal amount of the Series 2002 D Bonds. All payments by the Qualified Entity of the principal of, premium, if any, and interest on the Series 2002 Note will be made to the Trustee and each payment will be made on or before the date when the corresponding payment is required to be made on the related Series 2002 D Bonds. The principal of, premium, if any, and interest payments on the Series 2002 Note correspond, respectively, to the payments of principal of, premium, if any, and interest on the Series 2002 D Bonds. The Series 2002 Note will at all times be in fully registered form and will be non-transferable except as required to effect the assignment thereof to the Trustee and any successor trustee. *The Series 2002 Note and all other Notes issued under the Master Indenture, whether issued to the Bond Bank or other creditors, will be equally and ratably secured under the Master Indenture.*

The Qualified Entity and any future members of the Obligated Group (hereafter in this paragraph referred to as "Obligated Entities") will grant a security interest in their Net Revenues (as defined below) to the Master Trustee as security for the making of payments on the Notes, including the Series 2002 Note. Except as provided below, the Obligated Entities will not grant any mortgage or security interest in their property to the Master Trustee. "Net Revenues" are all cash and other receipts, present and future accounts, receivables, contracts and contract rights (including particularly those between the Qualified Entity and each other Obligated Entity and the State or any other state with respect to Medicaid; the Obligated Entities and third-party insurers of any patients of the Obligated Entities; and the Obligated Entities and the United States of America with respect to Medicare and all other equivalent insurance programs, or any state or federal program substituted in lieu thereof); general intangibles, documents and instruments, which are now owned or hereafter acquired by the Obligated Entities, and all proceeds therefrom, whether cash or non-cash, and which are derived by the Obligated Entities from the conduct of all or any part of their respective operations; and all revenue and income of the Obligated Entities from whatever source derived, including income from the principal of investments, leases and income received from leases, and grants received by the Obligated Entities from any source, but excluding only Restricted Property (as defined in Appendix E) of the Obligated Entities. Notwithstanding the foregoing, only amounts in excess of Total Expenses (as defined below) (other than depreciation, amortization, interest and certain non-cash items, including any gain or loss resulting from the extinguishment of Indebtedness (as defined in Appendix E), sale, exchange, or disposition of capital assets or a change in accounting principles) shall constitute Net Revenues. "Total Expenses" are total operating and nonoperating expenses of the Qualified Entity or any other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions and pension fund expenses not requiring, in the opinion of an independent actuary, cash contributions thereto.

## **Enforcement of Qualified Obligation**

As owner of the Qualified Obligation, the Bond Bank has available to it all remedies available to owners or holders of securities issued by the Qualified Entity. The Act provides that upon the execution and delivery of the Qualified Obligation to the Bond Bank, the Qualified Entity is deemed to have agreed that all statutory defenses to nonpayment are waived in the event that the Qualified Entity fails to pay principal of, or interest on, the Qualified Obligation when due.

The Qualified Entity's obligations under the Loan Agreement are evidenced by the Series 2002 Note, which is in turn secured under the Master Indenture. The practical realization of value upon any default will depend upon the exercise of various remedies specified in the Indenture, the Loan Agreement and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay. Under existing law, the remedies specified by the Indenture, the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Series 2002 D Bonds will contain customary qualifications as to the enforceability of the various legal instruments by limitations imposed by the state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally. See "PARTICULAR RISKS ASSOCIATED WITH THE QUALIFIED OBLIGATION" herein.

The Bond Bank has determined to consult with the Qualified Entity, as necessary from time to time, with regard to the actions needed to be taken by the Qualified Entity to preserve the exclusion of the interest on the Series 2002 D Bonds from the gross income of the holders of the Series 2002 D Bonds.

The Bond Bank has directed its program operations director to monitor the compliance by and to consult regularly with the Qualified Entity with respect to its requirements under the Qualified Obligation, including the making of Qualified Obligation Payments to the Bond Bank.

## **Debt Service Reserve Fund**

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

- (i) All proceeds of Bonds required to be deposited in the Debt Service Reserve Fund by the terms of the Indenture or any supplemental indenture or resolution of the Bond Bank with respect to the proceeds of Bonds in an amount equal to the "Debt Service Reserve Requirement". Then this requirement will be fulfilled with respect to the Series 2002 D Bonds by the acquisition of the DSRF Surety Bond;
- (ii) All money required to be transferred to the Debt Service Reserve Fund from another Fund or Account under the Indenture;
- (iii) All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and
- (iv) Any other available money or funds that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

As permitted by the Act, the Indenture provides that, for purposes of computing amounts in the Debt Service Reserve Fund, Investment Securities, as defined and described herein, purchased as an investment of moneys in such Fund will be valued at their amortized cost.

Except as provided by the Indenture, moneys in the Debt Service Reserve Fund will be held and applied to the payment of the principal of and interest on the Bonds in cases where sufficient funds are not available in other Funds and Accounts for such payments.

## **DSRF Surety Bond**

The Indenture requires the establishment of a Debt Service Reserve Fund in an amount equal to \$4,115,637.50. The Indenture authorizes the Bond Bank to obtain a surety bond in place of fully funding the Debt Service Reserve Fund. Accordingly, application has been made to Ambac Assurance Corporation ("Ambac Assurance") for the issuance of a surety bond (the "DSRF Surety Bond") for the purpose of funding the Debt Service Reserve Fund (see the "OPERATION OF FUNDS AND ACCOUNTS – Debt Service Reserve Fund" herein). The Series 2002 D Bonds will only be delivered upon the issuance of the DSRF Surety Bond. The premium on the DSRF Surety Bond is to be fully paid at or prior to the issuance and delivery of the Series 2002 D Bonds. The DSRF Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Series 2002 D Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Series 2002 D Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the DSRF Surety Bond.

Pursuant to the terms of the DSRF Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the DSRF Surety Bond and the Bond Bank is required to reimburse Ambac Assurance for any draws under the DSRF Surety Bond with interest at a market rate. Upon such reimbursement, the DSRF Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Bond Bank is subordinate to the Bond Bank's obligations with respect to the Series 2002 D Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the DSRF Surety Bond, any draw on the DSRF Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Debt Service Reserve Fund, in addition to the amount available under the DSRF Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the DSRF Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the Debt Service Reserve Fund shall be replenished in the following priority: (i) principal and interest on the DSRF Surety Bond shall be paid from first available Revenues; (ii) after all such amounts are paid in full, amounts necessary to fund the Debt Service Reserve Fund to the required level, after taking into account the amounts available under the DSRF Surety Bond shall be deposited from next available Revenues.

The DSRF Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

## **State Appropriations Mechanism**

The Act provides that in order to assure the maintenance of the Debt Service Reserve Requirement in the Debt Service Reserve Fund, the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank prior to December 1 of any year to the State General Assembly, as necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any Fiscal Year in which the amount in the Debt Service Reserve Fund is projected to be less than the Debt Service Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of principal of or interest on the Bonds.

Also under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

## **BOND INSURANCE**

The following information has been furnished by Ambac Assurance Corporation (the "Bond Insurer" or "Ambac Assurance") for use in this Official Statement. Reference is made to Appendix F for a specimen of the Bond Insurer's policy.

### **Payment Pursuant to Insurance Policy**

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Insurance Policy") relating to the Series 2002 D Bonds effective as of the date of issuance of the Series 2002 D Bonds. Under the terms of the Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2002 D Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2002 D Bonds and, once issued, cannot be cancelled by Ambac Assurance.

The Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2002 D Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2002 D Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2002 D Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2002 D Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2002 D Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium;
3. nonpayment of principal or interest caused by the insolvency or negligence of any Bond Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Insurance Policy, payment of principal requires surrender of Series 2002 D Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2002 D Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Insurance Policy. Payment of interest pursuant to the Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2002 D Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2002 D Bond and will be fully subrogated to the surrendering Holder's rights to payment.

### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately **\$5,389,000,000** (unaudited) and statutory capital of approximately **\$3,363,000,000** (unaudited) as of **March 31, 2002**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Authority, as issuer of the Series 2002 D Bonds.

Ambac Assurance makes no representation regarding the Series 2002 D Bonds or the advisability of investing in the Series 2002 D Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac Assurance. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17<sup>th</sup> Floor, New York, New York 10004 and (212) 668-0340.

### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002;
- 2) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
- 3) The Company's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
- 4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information."**

## **GENERAL RISKS TO THE OWNERS OF THE SERIES 2002 D BONDS**

### **General**

The ability of the Bond Bank to pay principal of, redemption premium, if any, and interest on the Series 2002 D Bonds depends primarily upon the receipt by the Bond Bank of Qualified Obligation Payments from the Qualified Entity, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no Fund which is required to contain amounts to make up for any deficiencies in the event of one or more defaults by the Qualified Entity in making such Qualified Obligation Payments, and there is no source from which the General Fund will be replenished except the Qualified Obligation Payments and investment income on moneys in the Funds and Accounts. There can be no representation or assurance that the Qualified Entity will realize sufficient rates, charges or other revenues to make its required Qualified Obligation Payments. The realization of such revenues by the Qualified Entity is subject to, among other things, future economic and demographic conditions and other conditions which are variable and not certain of prediction. See "PARTICULAR RISKS ASSOCIATED WITH THE QUALIFIED OBLIGATION" below. For a description of the Qualified Obligation, see Appendices A and D. For a description of procedures for providing for the payment of Qualified Obligation, see the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS -- Provisions for Payment of Qualified Obligation."

The State General Assembly may determine to appropriate funds to the extent the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement (see the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS -- State Appropriations Mechanism"). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 29, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Series 2002 D Bonds be deemed to be a debt or obligation of the State. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS -- Debt Service Reserve Fund."

## **Tax Exemption**

Further, recent and proposed changes in the federal tax laws could affect the exclusion of interest on the Series 2002 D Bonds under Section 103 of the Code from gross income for purposes of federal income taxation under certain circumstances. The Bond Bank and the Qualified Entity have covenanted under the Indenture and the Loan Agreement, respectively, to use their best efforts to comply with all actions required to assure the continuing exclusion of interest on the Series 2002 D Bonds from gross income for federal income tax purposes. Failure by the Bond Bank or the Qualified Entity to comply with such covenants could cause the interest on the Series 2002 D Bonds to be taxable retroactive to the date of issuance. Continuing exclusion of interest on the Series 2002 D Bonds from gross income for federal income tax purpose is dependent, in part, upon continuing compliance by the Qualified Entity with certain covenants made in connection with the issuance of the Qualified Obligation. The interest on the Series 2002 D Bonds could become taxable in the event that the Qualified Entity fails to comply with certain of such covenants. Such an event could in turn adversely affect the exempt status of the interest on the Series 2002 D Bonds retroactive to the date of issuance. See the caption "TAX MATTERS."

## **Limitation on Remedies**

The remedies available to the Trustee, to the Bond Bank or to the owners of the Series 2002 D Bonds upon an Event of Default under the Indenture or under the terms of any of the Qualified Obligation purchased by the Bond Bank are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture and under the Qualified Obligations may not be readily available or may be limited.

## **Bond Insurance**

The Bond Insurer has issued its Insurance Policy, guaranteeing the payment of the principal (but not premium) of the Series 2002 D Bonds due at maturity but not as a result of the acceleration or other redemption thereof, and interest on the Series 2002 D Bonds due on the interest payment dates therefor. There can be no assurance that the Bond Insurer will be financially able to meet its contractual obligations under the Insurance Policy. A form of the Insurance Policy is attached hereto as Appendix F. Certain information with respect to the Bond Insurer is set forth under the caption "BOND INSURANCE" herein. Such information was provided by the Bond Insurer and no representation is made as to the adequacy or the accuracy thereof.

So long as the Bond Insurer performs its obligations under the Insurance Policy, the Series 2002 D Bonds cannot be accelerated without the prior written consent of the Bond Insurer. Furthermore, so long as the Bond Insurer performs its obligations under the Insurance Policy, the Bond Insurer may direct any remedies that the Bondholders exercise under the Indenture.

In the event that the Bond Insurer is unable to make payments of principal of and interest on the Series 2002 D Bonds as such payments become due, the Series 2002 D Bonds are payable solely from moneys received by the Trustee as set forth in the Indenture.

In the event that the Bond Insurer is required to pay principal of or interest on the Series 2002 D Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Series 2002 D Bonds.

Owners of the Series 2002 D Bonds should note that, while the Insurance Policy will insure payment of the principal amount (but not any premium) paid to any Bondholder in connection with the optional or extraordinary optional redemption of any Series 2002 D Bonds which is recovered from such Bondholder as a voidable preference under applicable bankruptcy law, such amounts will be repaid by the Bond Insurer to such Bondholder only at times and in the amounts as would have been due absent such redemption.



## **Bond Ratings**

There is no assurance that the ratings assigned to the Series 2002 D Bonds at the time of issuance (see "RATINGS") will not be lowered or withdrawn, the effect of which could adversely affect the market price and the market for the Series 2002 D Bonds.

## **PARTICULAR RISKS ASSOCIATED WITH THE QUALIFIED OBLIGATION**

### **General**

No representation or assurance can be given that revenues will be realized by the Qualified Entity and any future members of the Obligated Group in amounts sufficient to pay principal of and any premium and the interest on the Series 2002 Note. Future economic and other conditions, including demand for health care services, the ability of the Qualified Entity to provide the services required by patients, physicians' confidence in the Qualified Entity's health care facilities, economic developments in the service areas and competition from other health care institutions in those service areas, together with changes in rates, costs, third-party reimbursement and governmental regulation, may affect adversely revenues and expenses, and, consequently, the Qualified Entity's ability to make payments under the Loan Agreement and the Series 2002 Note.

### **Limitations on Enforceability of Remedies**

Enforcement of remedies under the Loan Agreement, the Series 2002 Note, the Master Indenture and the Bond Indenture may be limited or restricted by laws relating to bankruptcy and rights of creditors and by application of general principles of equity. A court may decide not to order the specific performance of the covenants contained in these documents.

The enforceability of the liens of the Master Indenture, the Bond Indenture and the Loan Agreement may be subject to subordination or prior claims in certain instances other than bankruptcy proceedings. Examples of possible limitations on enforceability and of possible subordination of prior claims include (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) claims that might arise with respect to certain property if appropriate financing or continuation statements are not filed in accordance with the Indiana Uniform Commercial Code (the "UCC") from time to time in effect or as a result of the UCC not providing for perfection of a security interest in those elements of the Obligated Group's gross receipts that can be perfected under the UCC only by taking possession of such collateral, and (vi) federal bankruptcy laws, including, without limitation, those relating to limitations on the payment of future rentals under leases of real property and those affecting payments made within ninety days prior to any institution of bankruptcy proceedings by or against the members of the Obligated Group.

The accounts of the members of the Obligated Group are combined for purposes of determining whether various covenants and tests contained in the Master Indenture (including tests relating to the issuance of Additional Indebtedness) are met. This is the case notwithstanding uncertainty, in certain circumstances, as to the enforceability of the joint and several obligations of the members of the Obligated Group to make payments pursuant to the Notes.

In an action to force a member of the Obligated Group to make a payment pursuant to the Series 2002 Note, a court might not enforce such a payment in the event it is determined that sufficient consideration for the Obligated Issuer's obligation was not received or that the incurrence of such obligation has rendered or will render the Obligated Issuer insolvent. Further, assets which are donor-restricted or which are subject to a direct, express or charitable trust may not be available for the payment of debt service on the Series 2002 Note.

The various legal opinions to be delivered concurrently with the delivery of the Series 2002 Note will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws,

rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights.

## **Medicare Reimbursement**

Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services, skilled nursing care and some home health care, and Medicare Part B covers outpatient services, physician services and some supplies. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and administered by the various states.

Medicare pays most acute care hospitals for most services provided to inpatients under a payment system known as the "Prospective Payment System" or "PPS." Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. Some costs are also paid on the basis of "reasonable cost."

*Inpatient Operating Costs.* The Qualified Entity is paid a specified amount towards their operating costs based on a prospectively-determined federal payment rate, adjusted for the Diagnosis Related Group or "DRG" to which each Medicare patient is assigned upon admission, which is based on the admitting diagnosis and major procedures and other factors for each particular Medicare patient. The amount to be paid for each DRG is established prospectively by the Centers for Medicare and Medicaid Services ("CMMS," formerly the Health Care Financing Administration), an agency of the United States Department of Health and Human Services, and is not related to a hospital's actual costs. Historically, the government either does not increase payment rates annually or increases the DRG rates annually at rates which are less than the increase in the cost of delivering health care services.

*Outpatient Services.* Section 1833(t) of the Social Security Act provides for a prospective payment system ("PPS") of reimbursement for hospital outpatient services, including hospital operating and capital costs. CMMS published a final rule implementing this section on April 7, 2000. The effective date of this rule was August 1, 2000. Several Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, physical and occupational therapy, and speech language pathology services.

Under hospital outpatient PPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification ("APC") groups. Using hospital outpatient claims data from calendar year 1996 and data from the most recent available hospital cost reports, CMMS determines the median costs for the services and procedures in each APC group.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group.

There can be no assurance that the hospital PPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Hospital allocable to Medicare patient care.

*Home Health Care.* In prior years, Medicare reimbursed home health agencies for both operating and capital expenses incurred in providing each of the covered home health disciplines on a reasonable cost basis. Reasonable operating costs were limited, however, to 105% of median costs for free standing facilities after October 1, 1997, and the aggregate costs per beneficiary treated during the cost reporting period. Beginning in federal fiscal year 2000, payment to home health agencies have been determined on a PPS basis.

*Skilled Nursing Care.* Through federal fiscal year 1998, Medicare Part A paid the reasonable costs of certain post-hospital extended care services furnished by skilled nursing facilities ("SNFs"), including capital-related costs, subject to limits on routine operating costs. A case-mix, adjusted per the PPS system has been implemented for cost reporting periods beginning on or after July 1, 1998 for all routine, ancillary and capital-related costs,

subject to a three-year transition period. Medicare Part A covers nursing services furnished by or under the supervision of a registered professional nurse, as well as physical, occupational, and speech therapy provided by the SNF. SNF services are reimbursed for up to 100 days for each spell of illness, and are subject to coinsurance and deductibles from the patient. "Ancillary" services furnished to SNF patients are also covered under Medicare Part B and may be reimbursed after Part A coverage is exhausted.

### **Indiana Medicaid**

Since November 4, 1994, the Indiana Medicaid program has made payments to hospitals pursuant to a diagnostic related group system which bases payments on patient discharges. Previously, the Indiana Medicaid program reimbursed hospitals for inpatient services on the basis of the hospital's reasonable costs as determined by Medicare cost reimbursement principles and limited such reimbursement by allowing only specified increases in the per discharge target rates based upon certain fiscal year inflationary adjustment percentages.

Since March 1, 1994, outpatient reimbursement under the Indiana Medicaid program has been based upon established fee schedule allowances and rates for surgery groups. Previously, outpatient reimbursement was made on a prospective methodology providing a predetermined percentage based on an aggregate "cost-to-charge" ratio, with no year-end cost settlement.

Certain Indiana hospitals that serve a disproportionate share of Medicaid and low income patients may be eligible to receive disproportionate share payment adjustments. The basis for disproportionate share payments are lump sum payment adjustments. The basis for disproportionate share payments are lump sum payments based on each hospital's Medicaid and low income patient utilization. The enhanced disproportionate share payment adjustment provides additional funds to eligible hospitals based on their Medicaid discharges and patient days. The Qualified Entity receives a small amount of disproportionate share payments under the Indiana Medicaid program solely due to its classification as a county hospital.

In the most recent fiscal year, the Indiana Medicaid program recorded revenue constituted approximately 5% of the gross patient service revenues of the Qualified Entity. See "Sources of Patient Revenue" in Appendix B. As with federal programs, state programs financing medical assistance have implemented cost containment policies and reductions in spending. A recent decline in State revenues has necessitated a review of the state budget with a goal of reducing expenditures. Reductions in payments by the Indiana Medicaid program could materially adversely affect the financial condition of the Qualified Entity.

### **Private Health Plans and Insurers**

Certain private insurance companies contract with hospitals on an exclusive or a preferred provider basis, and some insurers have introduced plans known as preferred provider organizations ("PPOs"). Under such plans, there may be financial incentives for subscribers to use only those hospitals which contract with the plans. Under an exclusive provider plan, which includes most health maintenance organizations ("HMOs"), private payors limit coverage to those services provided by selected hospitals. With this contracting authority, private payors may direct patients away from nonselected hospitals by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. The discounts offered to HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Some HMOs offer and mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO's enrollees. If payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care, the financial condition of the hospital may be adversely affected.

## **Commercial Insurance and Other Third-Party Plans**

Many commercial insurance plans, including group plans, reimburse their customers or make direct payments to health care providers for charges at established rates. Generally, these plans pay semiprivate room rates plus ancillary service charges, which are subject to various limitations and deductibles depending on the plan. Patients carrying such coverage are responsible to the hospital for any deficiency between the commercial insurance proceeds and total billed charges.

## **Audits, Exclusions, Fines and Enforcement Actions**

Hospitals participating in Medicare are subject to audits and retroactive audit adjustments by fiscal intermediaries under the Medicare program. From an audit, a fiscal intermediary may conclude that a patient discharge has been claimed under an incorrect DRG, that services may not have been provided under the direct supervision of a physician (to the extent so required), that a patient should not have been characterized as an inpatient, that certain services provided prior to admission as an inpatient should not have been billed as outpatient services or that certain required procedures or processes were not satisfied. As a consequence, payments may be retroactively disallowed. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the hospital to civil or criminal sanctions.

## **Health Insurance Portability and Accountability Act**

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") was enacted on August 21, 1996. HIPAA covers, among other things, two prohibited practices, the commission of which may lead to civil monetary penalties: (1) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate, i.e., upcoding, and (2) engaging in a practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices could amount to civil monetary penalties of up to \$10,000 for each item or service involved. Management of the Qualified Entity does not expect that the prohibited practices provisions of HIPAA will affect the Qualified Entity in a material respect.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by encouraging the electronic exchange of information and the use of standardized formats for health care information. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information.

In December 2000, HHS released a final privacy regulation that protects medical records and other personal health information maintained by health care providers, hospitals, health plans, health insurers, and health care clearinghouses. The new standards: limit the non-consensual use and release of private health information; give patients new rights to access their medical records and to know who else has accessed them; restrict most disclosure of health information to the minimum needed for the intended purpose; establish new criminal and civil sanctions for improper use or disclosure; and establish new requirements for access to records by researchers and others.

Under the new privacy regulations, for the first time, there will be specific federal penalties if a patient's right to privacy is violated. For non-criminal violations of the privacy standards by the persons subject to the standards, including disclosures made in error, there are civil monetary penalties of \$100 per violation up to \$250,000 per year, per standard. In addition, criminal penalties are provided in HIPAA for certain types of violations of the statute that are done knowingly: up to \$50,000 and one year in prison for obtaining or disclosing protected health information; up to \$100,000 and up to five years in prison for obtaining or disclosing protected health information under "false pretenses;" and up to \$250,000 and up to ten years in prison for obtaining protected health information with the intent to sell, transfer or use it for commercial advantage, personal gain or malicious harm. These regulations became effective on April 14, 2001 and provide for a two-year phase-in period. In

addition, the Bush Administration has stated that HHS has up to a year to make certain modifications to these regulations. It is unknown at this time how any such modifications may affect the Qualified Entity.

According to a report issued by the American Hospital Association on December 14, 2000, compliance with just some of the federal government's proposed medical privacy rules under HIPAA could cost providers as much as \$22.5 billion over five years, far exceeding government estimates. The report concluded that HHS' estimates of \$3.8 billion for the entire health care field to comply with HIPAA privacy rules did not include several provisions. It is expected that the Qualified Entity will have additional expenses in order to comply with HIPAA; however, the amount thereof and its effect, if any, on the Hospital are not known at this time.

HIPAA also mandates the establishment of security regulations. These have not been issued in final form yet. Therefore, it is not known at this point how these requirements will affect the Qualified Entity.

### **Governmental Regulation**

The Qualified Entity will be subject to regulatory actions and policy changes by those governmental agencies that administer the Medicare and Medicaid programs. The Qualified Entity is subject to regulation by other federal, state and local governmental agencies. Additional regulatory laws (e.g., Certificate of Need laws) may, in the future, prevent the Qualified Entity from expanding or replacing obsolete facilities which the Qualified Entity deems necessary to remain competitive as to rates and charges and to maintain the quality of and scope of care. If the Qualified Entity is unable to obtain future governmental approvals for expanding or replacing obsolete facilities, the ability of the Qualified Entity to generate sufficient revenues to meet the debt service requirements of the Series 2002 D Bonds may be adversely affected.

Other legislative or regulatory actions, including for example the adoption of legislation establishing a rate-setting agency with authority to regulate the amounts or types of charges by health care facilities, could adversely affect the ability of the Qualified Entity to pay all of its debt service, including debt service on the Series 2002 D Bonds.

Other legislation has been and may be introduced in the U.S. Congress and the Indiana legislature that could result in limitations on revenues of the Qualified Entity through, among other things, (1) restrictions on the Qualified Entity's ability to recover its costs and to generate a sufficient profit from operations as a result of restrictions on charges to insurers and patients or reimbursement or payment from other third-party reimbursement programs such as Medicare, Medicaid, Blue Cross and other commercial payors, (2) encouragement of greater competition in the health care industry and (3) limitations on the tax deduction for employers offering health insurance plans to their employees, provision of tax credits for employers who offer a multiple choice of health care plans to their employees and allowing employees to elect lower-cost plans to receive tax-free rebates. No precise determination can be made at this time as to whether bills that have been or may be introduced or regulations which may be proposed for the purpose of containment of costs or otherwise affecting revenues from health care provided by, or increasing the competition among hospitals and nursing homes will be proposed or enacted, their effective date, or what effect, if any, such legislation may have on the future revenues of the Qualified Entity or its ability to make future capital expenditures.

### **Other Risk Factors**

*Competition and Factors Decreasing Utilization; Population Changes.* Competition from other health care providers now or hereafter located in the Qualified Entity's service area could adversely affect its operations. In addition, development of health maintenance organizations, establishment of ambulatory surgery centers and private laboratories, future medical and other scientific advances resulting in decreased usage of hospital facilities and nursing homes and efforts by insurers, employer-purchasers of health care insurance and governmental agencies to reduce utilization of health care facilities by such means as preventive medicine, improved occupational health and safety standards, home health care and more extensive utilization of outpatient care could adversely affect the operations of the Qualified Entity. The Qualified Entity could also be adversely affected by economic trends in and changes in the demographics of its service areas. See "THE QUALIFIED ENTITY - Service Area Characteristics" in Appendix B.

*Labor Relations.* Although at the present time none of the employees of the Qualified Entity are represented by a labor organization and no unionization efforts are in progress, unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected. The Qualified Entity cannot control the prevailing wage rates in its service areas and any increase in such rates will directly affect its costs of operation.

*Malpractice Insurance and Other Insurance Costs.* The ability of, and the cost to, the Qualified Entity to insure or otherwise protect itself against malpractice, fire, automobile and general comprehensive liability claims may affect the operations of the Qualified Entity. See Appendix B - "THE QUALIFIED ENTITY - Malpractice and Other Insurance" and "THE QUALIFIED ENTITY - Litigation" for a summary of the Qualified Entity's current insurance coverage. The inability to insure against punitive damage awards is also a risk.

*Special Purpose Buildings.* The Qualified Entity's facilities are not general purpose buildings and would not generally be suitable for industrial or commercial use. If it were necessary to foreclose a judgment lien on any of the facilities under "forced sale conditions" that are present in a bankruptcy context, the real property might prove to provide less than full value. In addition, the facilities are subject to restrictions which limit the use thereof to health care purposes and consequently it could be difficult to find a purchaser for these facilities.

*Nature of the Qualified Entity.* The Qualified Entity is a body corporate and politic of the State of Indiana. If an event of default occurs under the Loan Agreement, the Series 2002 Note or the Master Indenture, liquidation and seizure of the Qualified Entity to pay a money judgment may not be permitted by a court.

#### **Delays in Completion of the Project; Cost Overruns**

In addition to the other risk factors described herein, there are risks and contingencies associated with the construction of the Project. Although the estimated cost of the Project is within the limits of the funds estimated to be available therefor, contingencies generally involved in the construction of any large facility, such as fire, labor difficulties, unanticipated subsurface conditions and difficulties in obtaining materials, may cause the actual cost of the Project to exceed available funds. A delay in completion of the Project beyond the anticipated completion date may result in a delay in receipt of revenues to be derived from the Project, and the ability of the Qualified Entity to make the payments required by the Loan Agreement and the Series 2002 Note may be adversely affected as a result.

#### **Environmental Regulations**

Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. Among types of regulatory requirements faced by hospitals are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. In their role as owners and operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical hospital operations include, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their cost or both; may result in legal liability, damages, injunctions or fines, or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that the Qualified Entity or future members of the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Qualified Entity or future members of the Obligated Group.

## DESCRIPTION OF THE SERIES 2002 D BONDS

### General Description

The Series 2002 D Bonds are issuable as fully registered bonds in denominations of \$5,000 or any whole multiple thereof. The Series 2002 D Bonds will be dated as of their date of issuance and delivery.

Interest on the Series 2002 D Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 2002 (each an "Interest Payment Date"). The Series 2002 D Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside of the front cover page of this Official Statement. Each Series 2002 D Bond will bear interest from the Interest Payment Date next preceding the date on which it is authenticated unless it is (a) authenticated after the last day of the month prior to the Interest Payment Date (a "Record Date") and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) authenticated prior to the closing of business on the Record Date preceding the first Interest Payment Date, in which event it will bear interest from their dated date ; provided, however, that if, at the time of authentication of any Series 2002 D Bond, interest is in default, such Series 2002 D Bond will bear interest from the date to which interest has been paid.

When issued, all Series 2002 D Bonds will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests from DTC in the Series 2002 D Bonds will be made in book-entry only form (without certificates) in the denomination of \$5,000 or any whole multiple thereof. So long as DTC or its nominee is the registered owner of the Series 2002 D Bonds, payments of the principal of and interest on the Series 2002 D Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the "DTC Participants") will be the sole responsibility of DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the Series 2002 D Bonds will be the responsibility of the DTC Participants and the Indirect Participants, as defined herein. See the heading, "Book-Entry Only System" below.

If DTC or its nominee is not the registered owner of the Series 2002 D Bonds, principal of and premium, if any, on all of the Series 2002 D Bonds will be payable at maturity upon the surrender thereof at the designated corporate trust operations office of the Trustee in the City of Indianapolis. Interest on the Series 2002 D Bonds, when due and payable, will be paid by check dated the due date mailed by the Bond Trustee on or before the due date (or, in the case of an owner of Series 2002 D Bonds in an aggregate principal amount of at least \$1,000,000, by wire transfer on such due date, upon written direction of such registered owner) to the persons in whose names such Series 2002 D Bonds are registered, at their addresses as they appear on the bond registration books maintained by the Trustee on the Record Date, irrespective of any transfer or exchange of such Series 2002 D Bonds subsequent to such Record Date and prior to such Interest Payment Date, unless the Bond Bank shall default in payment of interest due on such Interest Payment Date.

Except as provided under "Book-Entry Only System," in all cases in which the privilege of exchanging or transferring Series 2002 D Bonds is exercised, the Bond Bank will execute and the Trustee will deliver Series 2002 D Bonds in accordance with the provisions of the Indenture. The Series 2002 D Bonds will be exchanged or transferred at the principal corporate trust office of the Trustee only for Series 2002 D Bonds of the same tenor and maturity. In connection with any transfer or exchange of Series 2002 D Bonds, the Bond Bank or the Trustee may impose a charge for any applicable tax, fee or other governmental charge incurred in connection with such transfer or exchange, which sums are payable by the person requesting such transfer or exchange.

The person in whose name a Series 2002 D Bond is registered will be deemed and regarded as its absolute owner for all purposes and payment of principal and interest thereon will be made only to or upon the order of the registered owner or its legal representative, but such registration may be changed as provided above. All such payments shall be valid to satisfy and discharge the liability upon such Series 2002 D Bond to the extent of the sum or sums so paid.

## Redemption

*Optional Redemption from Net Proceeds.* The Series 2002 D Bonds are, at the option of both the Qualified Entity and the Bond Bank, subject to redemption from the Net Proceeds (as defined in the Master Indenture) of an insurance or condemnation award, in whole at any time or in part on any interest payment date, in any order of maturity of principal installment or portion thereof selected by mutual consent of the Bond Bank and the Qualified Entity, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date, in case of damage or destruction to, or condemnation of, any Operating Assets (as defined in the Master Indenture) of the Qualified Entity, provided that the Net Proceeds of the insurance or condemnation award exceed \$3,000,000 and that the Board determines not to use such Net Proceeds to repair, rebuild or replace such Operating Assets.

*Optional Redemption from Other Moneys.* The Series 2002 D Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing after April 1, 2012, are, at the option of the Qualified Entity and the Bond Bank, subject to redemption at a price of par in whole or in part, in principal amounts and maturities selected by mutual consent of the Bond Bank and the Qualified Entity on any date on or after April 1, 2012. Under the Indenture, selection of Series 2002 D Bonds to be redeemed within a maturity will be made by lot by the Trustee.

*Sinking Fund Redemption.* The Series 2002 D Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing on April 1, 2017 (the "2017 Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such Term Bonds, plus accrued interest to the redemption date, on April 1 of each year as shown on the following table:

<u>Year</u>	<u>Principal Amount</u>
2016	\$1,905,000
2017	2,005,000 (Maturity)

The Series 2002 D Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing on April 1, 2023 (the "2023 Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such Term Bonds, plus accrued interest to the redemption date, on April 1 of each year as shown in the following table:

<u>Year</u>	<u>Principal Amount</u>
2021	\$2,455,000
2022	2,590,000
2023	2,730,000 (Maturity)

The Series 2002 D Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing on April 1, 2026 (the "2026 Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such Term Bonds, plus accrued interest to the redemption date, on April 1 of each year as shown in the following table:

<u>Year</u>	<u>Principal Amount</u>
2024	\$2,875,000
2025	3,025,000
2026	3,185,000 (Maturity)

The Series 2002 D Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing on April 1, 2030 (the "2030 Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at



a redemption price equal to the principal amount of such Term Bonds, plus accrued interest to the redemption date, on April 1 of each year as shown in the following table:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2027	\$3,350,000	2029	\$3,715,000
2028	3,530,000	2030	3,910,000 (Maturity)

The 2017 Term Bonds, the 2023 Term Bonds, the 2026 Term Bonds and the 2030 Term Bonds are hereinafter collectively referred to as the "Term Bonds." Under the Indenture, selection of Term Bonds to be redeemed will be made by lot by the Trustee. The principal amount of Term Bonds to be redeemed on each date set forth above will be subject to reduction by the principal amount of any such Term Bonds of the same maturity which, not less than 45 days prior to a sinking fund redemption date, have been theretofore surrendered to or purchased by the Trustee for cancellation, and canceled, all in accordance with the Indenture. The principal amount of any Term Bonds so surrendered and canceled in excess of the principal amount scheduled for redemption in any one year will be credited against future redemption obligations and the principal amounts of Term Bonds subject to sinking fund redemption at such times will be accordingly reduced.

*Notice of Redemption.* Notice of the call for any redemption, identifying the Series 2002 D Bonds (or any portions thereof in integral multiples of \$5,000 each) to be redeemed, will be given by the Trustee at least 30 days but not more than 45 days prior to the date fixed for redemption by mailing a copy of the redemption notice by registered or certified mail to the registered owner of each Series 2002 D Bond to be redeemed at the address shown on the registration books and to the original purchasers of the Series 2002 D Bonds. Failure to mail such notice to any particular owner of Series 2002 D Bonds, or any defect in the notice mailed to any such owner of Series 2002 D Bonds, will not affect the validity of the call for the redemption of any other Series 2002 D Bonds.

*Redemption Payments.* Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the redemption price of the Series 2002 D Bonds called, together with accrued interest on the Series 2002 D Bonds to the redemption date. After the redemption date, if proper notice of redemption by mailing has been given and sufficient funds have been deposited with the Trustee, interest will cease to accrue on the Series 2002 D Bonds that have been called.

### **Book-Entry Only System**

The following information concerning DTC and the Book-Entry Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Bond Bank, the Underwriters, the Trustee, the Master Trustee or any Member of the Obligated Group.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2002 D Bonds. The Series 2002 D Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2002 D Bond certificate will be issued for each maturity of the Series 2002 D Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National

Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2002 D Bonds under the DTC System must be made by or through Direct Participants, which will receive a credit for the Series 2002 D Bonds on DTC's records. The ownership interest of each actual purchase of such Series 2002 D Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2002 D Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2002 D Bonds, except in the event that use of the book-entry system for the Series 2002 D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2002 D Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2002 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2002 D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2002 D Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2002 D Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2002 D Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. Beneficial Owners of Series 2002 D Bonds may wish to ascertain that the nominee holding the Series 2002 D Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Trustee and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2002 D Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2002 D Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2002 D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series 2002 D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Bond Bank or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payment by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Bank, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment or redemption proceeds, distributions, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or the Trustee, disbursement of such payments to Direct Payments shall be the

responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2002 D Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2002 D Bond certificates are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2002 D Bond certificates will be printed and delivered.

### **Discontinuation of Book-Entry Only System**

DTC may determine to discontinue providing its service with respect to the Series 2002 D Bonds at any time by giving notice to the Bond Bank and the Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the giving of such notice, the book-entry only system for the Series 2002 D Bonds will be discontinued unless a successor securities depository is appointed by the Bond Bank. In addition, the Bond Bank may discontinue the book-entry only system for the Series 2002 D Bonds at any time by giving reasonable notice to DTC.

In the event that the book-entry only system for the Series 2002 D Bonds is discontinued, the following provisions would apply, subject to the further conditions set forth in the Indenture:

*Delivery of Certificates; Registered Owners.* Series 2002 D Bond certificates in fully registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC Participants may specify (which may be the Indirect Participants or Beneficial Owners), in authorized denominations of \$5,000 or integral multiples thereof. The ownership of the Series 2002 D Bonds so delivered (and any Series 2002 D Bonds thereafter delivered upon a transfer or exchange described below) shall be registered in registration books to be kept by the Trustee at its designated corporate trust office, and the Bond Bank and the Trustee shall be entitled to treat the registered owners of such Series 2002 D Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Indenture.

*Transfers and Exchanges.* The Series D 2002 Bonds may be transferred or exchanged for one or more Series D 2002 Bonds in different authorized denominations upon surrender thereof (together with an assignment duly executed by the registered owner or such Owner's attorney or legal representative in form satisfactory to the Trustee) at the designated corporate trust operations office of the Trustee in the City of Indianapolis, by the registered owners or their duly authorized attorneys. Upon surrender of any Series 2002 D Bonds to be transferred or exchanged, the Trustee shall record the transfer or exchange in its registration books and shall authenticate and deliver new Series 2002 D Bonds appropriately registered and in appropriate authorized denominations. The registered owner requesting any such transfer or exchange may be charged a sum sufficient to cover any tax, fee or other governmental charge which may be imposed with respect thereto. Neither the Bond Bank nor the Trustee is required to make any such transfer or exchange of Series 2002 D Bonds in the case of a proposed redemption, after such Series 2002 D Bonds (or portions of such Series 2002 D Bonds) have been selected for redemption. No transfer or exchange made other than as described above and in the Indenture shall be valid or effective for any purposes under the Indenture.

*Payments.* The principal or redemption price of the Series 2002 D Bonds shall be payable upon surrender thereof at the designated corporate trust office of the Trustee. Interest shall be payable by check or draft mailed to the registered owners of the Series 2002 D Bonds as shown on the registration books kept by the Trustee as of the close of business on the applicable record dates described below. Interest payable to the registered owner of Series 2002 D Bonds in the aggregate principal amount of \$1,000,000 or more may, upon request by such registered owner to the Trustee, be paid by wire transfer to a designated account.

*Record Dates.* The record date for interest due on the Series 2002 D Bonds on any April 1 shall be the immediately preceding March 15 and the record date for interest due on any October 1 shall be the immediately preceding September 15.

## ESTIMATED SOURCES AND APPLICATION OF FUNDS

The proceeds of sale of the Series 2002 D Bonds, together with certain other funds, will be applied as follows:

### Sources of Funds:

Series 2002 D Bonds	\$60,000,000.00
Reoffering Premium	586,469.35
Funds released from the indenture for the Series 1992 Bonds (a)	<u>1,929,457.50</u>

TOTAL: \$62,515,926.85

### Application of Funds:

Debt Service Reserve Fund surety bond	\$ 90,544.03
For deposit in the Costs of Issuance Fund for payment of a portion of the costs of issuing the Series 2002 D Bonds, including Underwriters' discount and the premium for bond insurance	863,902.43
For deposit in the Project Fund (a)(b)	<u>61,561,480.39</u>

TOTAL: \$62,515,926.85

(a) A portion of the proceeds of the Series 2002 D Bonds to be loaned to the Qualified Entity will be used to defease \$14,385,000 of Special Hospital Program Bonds, Series 1992, of the Indiana Bond Bank (the "Series 1992 Bonds").

(b) A portion of the proceeds of the Series 2002 D Bonds to be loaned to the Qualified Entity will be used by it to pay a portion of the costs of constructing and equipping an expansion and renovation project. See the caption "THE QUALIFIED ENTITY - The Project" in Appendix B hereto.

## THE INDIANA BOND BANK

The Bond Bank was created in 1984 and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, is separate from the State in its corporate and sovereign capacity and has no taxing power.

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and had outstanding as of June 5, 2002, an aggregate principal amount of approximately \$1,989,240,000 in separate program obligations not secured by the Indenture, approximately \$221,035,000 of which obligations are secured by debt service reserve funds eligible for annual appropriation by the State General Assembly. Additionally, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financing, if any, will be secured separately from the Series 2002 D Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

## **Powers Under the Act**

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a purchase or a sale of qualified obligations or other investments or the performance of its duties and execution of its powers under the Act;
2. Purchase and hold qualified obligations at such prices and for such periods as the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase will be made by the Bond Bank;
4. Prescribe the form of application or procedure required of a qualified entity for a purchase and enter into agreements with qualified entities with respect to each purchase;
5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;
6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other program expenses properly attributable to qualified entities;
7. Except as limited by the Indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;
8. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;
9. Temporarily invest moneys available until used for making purchases, in accordance with the Indenture or any other indenture authorizing the issuance of bonds or notes; and
10. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes of the Bond Bank) may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes, or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee or make investments other than as permitted by the Act;

3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;

4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner in the conduct of any private or commercial banking business, or act as a savings bank, savings and loan association or any other kind of financial institution; or

5. Engage in any form of private or commercial banking business.

### **Organization and Membership of the Bond Bank**

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for the three-year terms set forth below. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

### **Directors**

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999-present, and Chairman Ex Officio. Residence: Indianapolis, Indiana. Member, Indiana State Board Finance; Vice Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority.

Clark H. Byrum, Vice Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and NorCen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962-1985; Former Examiner, Federal Deposit Insurance Corporation.

Russell Breeden, III, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to February, 2002; Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

Morris H. Mills, Director; term expires July 1, 2003. Residence: Ladoga, Indiana. Partner, Mills Bros. Farms; Member, Indiana State Senate, 1972 to 2000; Member, Indiana State House of Representatives, 1968 to 1972; Director and Officer, Maplehurst Group, 1954 to 1996.

C. Kurt Zorn, Director; term expires July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to Present; Chairman, State Board of Tax Commissioners, January 1991 -August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Marni McKinney, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman, First Indiana Bank; Vice Chairman & Chief Executive Officer, First Indiana Corporation; Board of Directors, Indianapolis Public Transit Authority; Member, America's Community Bankers Association.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of the Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huge has over 14 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

## **THE STATE OF INDIANA AND THE INDIANA BOND BANK**

The purpose of the Bond Bank is to foster and promote, in accordance with the Act, the provision of adequate markets and facilities for the borrowing of funds for public projects and purposes by the State's political subdivisions and certain public educational institutions. The programs of the Bond Bank allow many of these entities throughout the State to achieve lower costs of borrowing than they could if acting alone. The Bond Bank's programs thus serve in promoting the necessary infrastructure to support the expanding needs of a State with a broad and diverse economy.

A more detailed discussion of the State and its financial condition and procedures is set forth in Appendix B, "Certain Financial and Economic Information on the State of Indiana." **However, the faith, credit and taxing power of the State are not pledged to the payment of the principal of, premium, if any, and interest on any of the Series 2002 D Bonds, and the Series 2002 D Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State.**

## **OPERATION OF THE PROGRAM**

The purpose of the Bond Bank is to address the financing needs of a broad array of qualified entities in accordance with the Act. Consequently, the Bond Bank has encouraged qualified entities throughout the State to participate in its programs. Each qualified entity seeking to participate is required to complete an Application containing certain information concerning the qualified entity and nature of its qualified obligations. The Directors of the Bond Bank, in consultation with the Executive Director and financial advisors appointed by the Bond Bank, have reviewed, discussed and approved the Application of the Qualified Entity. The Bond Bank has determined to make a loan to the Qualified Entity out of the proceeds of the Series 2002 D Bonds.

The Act provides that all qualified obligations upon delivery to the Bond Bank, must be accompanied by all documentation required by the Board of Directors of the Bond Bank, including an approving opinion of bond counsel, certification and guarantee of signatures, and certification as to no litigation challenging the validity or issuance of such qualified obligations pending as of the date of delivery of the qualified obligations. The Bond Bank will be prepared to make the loan of Series 2002 D Bonds proceeds to the Qualified Entity pursuant to the Loan Agreement promptly after the receipt of such proceeds by the Bond Bank. However, under the Indenture, the Loan Agreement and the policies of the Bond Bank, such loan is subject to the receipt by the Trustee of each of the following:

- (a) a written requisition signed by an authorized officer of the Bond Bank stating the name of the Qualified Entity to which the payment is to be made and the amount to be paid;
- (b) a certificate signed by an officer of the Bond Bank, attached to the requisition and certifying that the Qualified Entity is obligated to make Qualified Obligation Payments pursuant to the Loan Agreement, and to pay all fees and charges required to be paid to the Bond Bank under the Indenture and has executed and delivered the Qualified Obligation to the Bond Bank, and that to the knowledge of such officer, the Qualified Entity is not in default under the payment terms or other material terms or provisions of any other qualified obligations;
- (c) a certified transcript of proceedings of the Qualified Entity authorizing the issuance, execution and delivery of the Qualified Obligation, containing the certifications required by the Act and other reasonable and appropriate certifications and representations requested by the Bond Bank or the Trustee;
- (d) an opinion of bond counsel, in form satisfactory to the Bond Bank, stating that the Qualified Obligation constitutes the valid and binding obligation of the Qualified Entity enforceable in accordance with its terms, subject to customary enforcement limitations;
- (e) the Qualified Obligation;
- (f) an opinion of counsel for the Qualified Entity in a form satisfactory to the Bond Bank stating that such Qualified Entity is a qualified entity within the meaning of the Act; and
- (g) a certificate from the Qualified Entity stating that the Qualified Entity is subject to the rebate requirement of Section 148 of the Code and will comply with such provisions.

The Qualified Entity will make Qualified Obligation Payments from available revenues of its hospital facilities in an amount sufficient to pay principal and interest on its Qualified Obligation as set forth in those provisions of State law that authorize the Qualified Entity to borrow and issue its Qualified Obligation for particular purposes. The Qualified Entity will also be required to submit certain financial information and reports to the Bond Bank during every year in which Qualified Obligation Payments are due to be made to the Bond Bank.

## **REVENUES, FUNDS AND ACCOUNTS**

### **Creation of Funds and Accounts**

The Indenture establishes the following special Funds and Accounts to be held by the Trustee:

- 1. General Fund - comprised of the following:
  - (a) General Account
  - (b) Redemption Account
- 2. Project Fund



3. Costs of Issuance Fund
4. Debt Service Reserve Fund
5. Rebate Fund

#### **Deposit of Net Proceeds of the Series 2002 D Bonds and other Moneys, Revenues and Other Receipts**

The Trustee will deposit the net proceeds from the sale of the Series 2002 D Bonds as follows:

- (a) To the General Account of the General Fund, the accrued interest, if any, to the date of delivery on the Series 2002 D Bonds;
- (b) To the Debt Service Reserve Fund, the sum of \$90,544.03 (to pay the premium for the DSRF Surety Bond);
- (c) To the Costs of Issuance Fund, the amount of \$466,102.43 to pay the costs of issuance of the Series 2002 D Bonds (other than Underwriters' discount); and
- (d) To the Project Fund, the balance of such amounts to be used to make the loan to the Qualified Entity.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the Series 2002 D Bonds, interest earnings on any amounts in the Rebate Fund or in the Debt Service Reserve Fund, up to the amount of the Debt Service Reserve Requirement, and moneys received by the Bond Bank from the sale or redemption prior to maturity of the Qualified Obligation) into the General Account of the General Fund and will deposit any moneys received from the sale or redemption prior to maturity of the Qualified Obligation into the Redemption Account of the General Fund. The Trustee will deposit the proceeds of any Refunding Bonds as provided in the supplemental indenture authorizing the issuance of such Refunding Bonds.

### **OPERATION OF FUNDS AND ACCOUNTS**

#### **General Fund**

*General Account.* The Trustee will disburse the amounts held in the General Account for the following purposes, and, in the event of insufficient funds to make all of such required disbursements, in the following order of priority:

- (a) On or before 30 days after each anniversary of the issuance of the Bonds, the amounts to be transferred to the Rebate Fund.
- (b) On or before 10:00 a.m., Indianapolis time, on the business day prior to any Interest Payment Date, to the Trustee such amounts as may be necessary to pay the principal and interest coming due on the Series 2002 D Bonds on such Interest Payment Date.
- (c) As and to the extent necessary, to the Debt Service Reserve Fund sufficient amounts to replenish any deficiency in the Debt Service Reserve Requirement.
- (d) As necessary and in accordance with the Indenture, such amounts as may be necessary to pay the reasonable costs of administering the Program (the "Program Expenses") of the Bond Bank.

(e) At such times as the Bond Bank may determine, after making all of the other transfers required under the Indenture, and upon submission by the Bond Bank of a Cash Flow Certificate giving effect to such transfer, to any Fund or Account or any other fund or account of the Bond Bank in the discretion of the Bond Bank.

*Redemption Account.* The Trustee will deposit in the Redemption Account all payments of principal, premium, if any, and interest received from the Qualified Entity for the optional redemption of the Series 2002 D Bonds or the Series 2002 Note, or for the mandatory sinking fund redemption of the Series 2002 D Bonds. The Trustee shall disburse amounts held in the Redemption Account as follows:

(a) To redeem Bonds of such maturity or maturities as directed by an authorized officer of the Bond Bank and the Qualified Entity, if such Bonds are then subject to redemption;

(b) Not later than 10:00 a.m., Indianapolis, Indiana, time one (1) Business Day prior to each Interest Payment Date, to the General Account of the General Fund, if, and to the extent, moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, moneys in the Redemption Account not already committed to the redemption of Bonds for which notice of redemption has already been given; or

(c) To purchase Bonds of such maturity or maturities as directed by an authorized officer of the Bond Bank and the Qualified Entity, regardless of whether such Bonds are then subject to redemption, in accordance with the Indenture at the most advantageous price obtainable with reasonable diligence and not in excess of the applicable redemption price for such Bonds unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that a purchase of Bonds at a price in excess of the applicable redemption price will not cause Revenues expected to be received subsequent to such purchase to be less than debt service on all outstanding Bonds. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the redemption price from the Redemption Account.

In the event that the Trustee is unable to purchase Bonds in accordance with subparagraph (c), then, subject to restrictions on redemption set forth in the Indenture, the Trustee will call for redemption on the next redemption date such amount of Bonds of such maturity or maturities directed by an authorized officer of the Bond Bank as will exhaust the Redemption Account as nearly as possible at the applicable redemption price. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the redemption price from the Redemption Account.

The Trustee may, upon direction of the Bond Bank, transfer any moneys in the Redemption Account to the General Account if the Bond Bank provides the Trustee with a Cash Flow Certificate taking into account the effect of such transfer.

### **Project Fund**

The Trustee will disburse moneys on deposit in the Project Fund from time to time as payment for or reimbursement to the Qualified Entity for payment made for the cost of completing the construction and renovation portion of the Project upon receipt by the Trustee of a certificate of an authorized officer of the Qualified Entity stating that:

a. Costs in an aggregate amount set forth in such certificate have been or will be made or incurred and were or are necessary for completing the Project;

b. The amount paid or to be paid as set forth in such certificate is reasonable and represents a part of the amount payable for completing the Project; and

c. No part of said costs of the Project has been included in any certificate previously filed with the Trustee.

If, on June 1, 2005, there remains any balance of moneys in the Project Fund, the Trustee will deposit such moneys in the Redemption Account of the General Fund.

### **Costs of Issuance Fund**

Upon receipt of invoices or requisitions acceptable to the Trustee, the Trustee will disburse the amounts held in the Costs of Issuance Fund for the payment or reimbursement of the costs related to the authorization, sale, and issuance of the Series 2002 D Bonds including, but not limited to, the fees and expenses of Bond Counsel and counsel to the Bond Bank, initial fees and expenses of the Trustee, the costs of printing, execution, transportation and safekeeping of the Series 2002 D Bonds, fees and expenses of accountants and professional consultants, fees and expenses of any rating agencies, costs of credit enhancement, and all other fees and expenses payable or reimbursable, directly or indirectly, by the Bond Bank prior to or concurrently and in connection with the issuance and sale of the Series 2002 D Bonds. At such time as an authorized officer of the Bond Bank certifies that all costs of issuance have been paid, and in any event not later than February 1, 2003, the Trustee shall transfer the entire remaining balance of the Costs of Issuance Fund, if any, to the General Account of the General Fund.

### **Debt Service Reserve Fund**

Except for transfers to the General Account of the General Fund described below, the Trustee will disburse available funds held in the Debt Service Reserve Fund solely for the payment of principal and interest coming due on the Bonds and only in the event and to the extent that moneys in the General Account are not sufficient to make such payments. See also the discussion of the Debt Service Reserve Fund under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS -- The Debt Service Reserve Fund."

Amounts in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement will be transferred to the General Account of the General Fund.

### **Rebate Fund**

Upon the direction of the Bond Bank and in accordance with the Memorandum of Compliance provided by the Bond Bank under the Indenture (see in Appendix D, "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE -- Preservation of Tax Exemption"), the Trustee will deposit amounts for the benefit of the Bond Bank from the General Fund into the Rebate Fund and will deposit into the Rebate Fund all income from investments in the Rebate Fund. In the event and to the extent that amounts in the Rebate Fund exceed the amounts required to be rebated to the United States of America, the Trustee will transfer such excess amounts to the General Fund upon the direction of the Bond Bank in accordance with the Memorandum of Compliance.

Not more than 60 days after five years following the date of delivery of the Series 2002 D Bonds, and at intervals of every five years thereafter, upon the written request of the Bond Bank the Trustee will pay to the United States of America 90% of the amount required to be paid to the United States of America as of such payment date. Not later than 60 days following the retirement of all of the Series 2002 D Bonds, upon the written request of the Bond Bank the Trustee will pay to the United States of America the amount to be paid to the United States of America.

With respect to the Rebate Fund, the Bond Bank may direct the Trustee to proceed other than as set forth in the Indenture and described above by delivering to the Trustee a new Memorandum of Compliance accompanied by an opinion of bond counsel to the effect that compliance with such memorandum will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Series 2002 D Bonds.

### **Amounts Remaining in Funds**

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebates to the United States of America and the fees, charges and expenses of the Trustee will be distributed to the Qualified Entity.

## **Investment of Funds**

Moneys held as a part of any Fund or Account under the Indenture, including without limitation the Rebate Fund, will be invested and reinvested at all times as fully as reasonably possible by the Trustee in investments defined to be Investment Securities under the Indenture as directed by the Bond Bank (with such direction to be confirmed in writing) and in accordance with the provisions of the Act and the terms and conditions of the Indenture. The Bond Bank will so direct the Trustee, and the Bond Bank and the Trustee will make all such investments of moneys under the Indenture, in accordance with prudent investment standards reasonably expected to maximize yields while seeking to preserve principal and to avoid causing any of the Bonds to become arbitrage bonds under the Code.

All investments will be a part of the Fund or Account from which moneys were used to acquire such investments, and all income and profits on such investments (other than from amounts on deposit in the Rebate Fund or any Account created thereunder) will be deposited as received in the General Account of the General Fund, subject to any requirements in the Act with respect to earnings on funds appropriated by the State General Assembly to the Debt Service Reserve Fund. Any investment losses from an Investment Security will be charged to the Fund or Account from which moneys were employed to invest in the Investment Security, and the Trustee will not be liable for any investment losses for so long as the Trustee complies with the provisions of the Indenture. Moneys in any Fund or Account will be invested in Investment Securities with maturity dates (or redemption dates determinable at the option of the owner of such Investment Securities) coinciding as nearly as practicable with the times at which moneys in such Funds or Accounts will be required for transfer or disbursement under the Indenture. The Trustee will sell and reduce to cash sufficient amounts of such Investment Securities in a respective Fund or Account as may be necessary to make up a deficiency in any amounts required to be disbursed from such Fund or Account. Under the Indenture, the Trustee is directed to invest all moneys in the Debt Service Reserve Fund, if applicable, to the provisions of the Investment Agreement.

Except with regard to the Debt Service Reserve Fund, obligations purchased as investments of moneys in any Fund or Account with a stated maturity of less than two years will be valued at cost, including paid accrued interest and unamortized debt discount. Other such obligations will be valued at the lower of cost, including accrued interest paid and unamortized debt discount, or market value, exclusive of earned accrued interest. All obligations purchased as an investment of moneys in the Debt Service Reserve Fund, if applicable, will be valued at their amortized cost.

The Bond Bank and the Trustee have each certified to the owners of outstanding Bonds that amounts on deposit in any Fund or Account in connection with the Bonds, regardless of whether such amounts are derived from Bond proceeds or any other source, are not intended to be used and will not be used in a manner which will cause the interest on the Bonds to lose the exclusion from gross income for federal income tax purposes.

## **THE SERIES 2002 D BONDS AS LEGAL INVESTMENTS**

Under the Act all financial institutions, investment companies, insurance companies and associations, executors, administrators, guardians, trustees and other fiduciaries in the State may legally invest sinking funds, money or other funds belonging to or within the control of such fiduciaries in the bonds and notes of the Bond Bank issued under the Act.

## **LITIGATION**

### **Bond Bank**

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation restraining or enjoining the issuance, sale, execution or delivery of the Series 2002 D Bonds or prohibiting the Bond Bank from lending the proceeds of the Series 2002 D Bonds to the Qualified Entity or in any way contesting or affecting the

validity of the Series 2002 D Bonds, any proceedings of the Bond Bank taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Series 2002 D Bonds. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present Directors or other officers of the Bond Bank to their respective offices is being contested.

### **Qualified Entity**

There is not now pending or, to the knowledge of the Qualified Entity, threatened any litigation restraining or enjoining the entry into or execution of the Qualified Obligation or prohibiting the Qualified Entity from delivering the Qualified Obligation to the Bond Bank or in any way contesting or affecting the validity of the Qualified Obligation, any proceedings of the Qualified Entity taken with respect to the execution or delivery thereof or the pledge or application of any moneys or security provided for the payment of the Qualified Obligation.

## **TAX MATTERS**

In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2002 D Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2002 D Bonds (the "Code"). This opinion relates only to the exclusion from gross income of interest on the Series 2002 D Bonds for federal income tax purposes under Section 103 of the Code. The opinion of Barnes & Thornburg is based on certain certifications, covenants and representations of the Bond Bank and the Qualified Entity and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2002 D Bonds is exempt from income taxation in the State of Indiana for all purposes except the State financial institutions tax. See Appendix C for the form of Bond Counsel opinion.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2002 D Bonds as a condition to the exclusion from gross income of interest on the Series 2002 D Bonds for federal tax purposes. Noncompliance with such requirements may cause interest on the Series 2002 D Bonds to be included in gross income for federal tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the Series 2002 D Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the Bonds would be materially and adversely affected.

The interest on the Series 2002 D Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2002 D Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax and the environmental tax under 59A of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, includes all corporations which are transacting the business of a financial institution in Indiana. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Series 2002 D Bonds is excluded from gross income for federal tax purposes and exempt from State income tax, the accrual or receipt of interest on the Series 2002 D Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Series 2002 D Bonds should consult their own tax advisors with respect to the other tax consequences of owning the Series 2002 D Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Series 2002 D Bonds. Prospective purchasers of the Series 2002 D Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Series 2002 D Bonds.

## **ORIGINAL ISSUE DISCOUNT**

The initial public offering price of the Series 2002 D Bonds maturing on April 1 in the years 2019, 2020, 2026 and 2030 (collectively, the "Discount Bonds"), is less than the principal amount payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the cover page of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds, will be treated as "original issue discount." The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending on April 1 and October 1 (with straight line interpolation between compounding dates). An owner who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity will treat the accrued amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

The original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

## **AMORTIZABLE BOND PREMIUM**

The initial public offering price of the Series 2002 D Bonds maturing on April 1 in the years 2003 to 2015, inclusive, 2017, 2018 and 2023 (collectively, the "Premium Bonds") is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable

Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth at Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

## **LEGAL MATTERS**

Certain legal matters incident to the authorization and issuance of the Series 2002 D Bonds by the Bond Bank are subject to the approval of Barnes & Thornburg, Indianapolis, Indiana, bond counsel, whose approving opinion will be delivered with the Series 2002 D Bonds. Bond counsel has not been requested to review any information contained in this Official Statement or the Appendices hereto, other than the information pertaining to the Series 2002 D Bonds under the captions "INTRODUCTION," "DESCRIPTION OF THE SERIES 2002 D BONDS," "REVENUES, FUNDS AND ACCOUNTS," "OPERATION OF FUNDS AND ACCOUNTS," and in Appendix D, "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL FINANCING DOCUMENTS - Summary of Certain Provisions of the Indenture," "TAX MATTERS," "ORIGINAL ISSUE DISCOUNT" and Appendix C and expresses no opinion thereon and assumes no responsibility in connection therewith. Certain legal matters will be passed upon for the Bond Bank by its special counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana. Certain matters will be passed upon for the Qualified Entity by its counsel, Deckard & O'Brien, Danville, Indiana. Certain legal matters will be passed upon for the Underwriters by their counsel, Hall, Render, Killian, Heath & Lyman, P.S.C., Indianapolis, Indiana.

Barnes & Thornburg, bond counsel for the Bond Bank, is also serving as bond counsel for the Qualified Entity in connection with the issuance of the Qualified Obligation.

The remedies available to the Trustee, to the Bond Bank or to the owners of the Series 2002 D Bonds upon an Event of Default under the Indenture or under the terms of any of the Qualified Obligations purchased by the Bond Bank are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture and under the Qualified Obligations may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2002 D Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally (regardless of whether such enforceability is considered in a proceeding in equity or in law), by general principles of equity (regardless of whether such proceeding is considered in a proceeding in equity or at law) and by the valid exercise of the constitutional powers of the State and the United States of America. Enforceability of the Indenture or the Loan Agreement in situations where such enforcement may adversely affect public health and welfare may be subject to the police powers of the State.

## **RATINGS**

Standard & Poor's Corporation has assigned the Series 2002 D Bonds a rating of "AAA" on the understanding that the standard policy of the Bond Insurer, insuring the payment when due of the principal of and interest on the Series 2002 D Bonds, will be issued by the Bond Insurer upon the issuance of the Series 2002 D

Bonds. In addition, Standard & Poor's Corporation has assigned the Series 2002 D Bonds an underlying (uninsured) rating of "A+." A further explanation of such ratings may be obtained from such agency at 25 Broadway, New York, New York 10004. Certain information was supplied to Standard & Poor's Corporation by the Bond Bank to be considered in evaluating the Series 2002 D Bonds. Such ratings reflect only the view of Standard & Poor's Corporation and are not a recommendation to buy, sell or hold the Series 2002 D Bonds. There is no assurance that either rating will continue for any given period of time or that either rating will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of either rating may have an adverse effect upon the market price or marketability of the Series 2002 D Bonds. The Bond Bank did not apply to any other rating agency for a rating on the Series 2002 D Bonds.

## **UNDERWRITING**

Under a bond purchase contract entered into between the Underwriters listed on the cover page of this Official Statement and the Bond Bank, the Series 2002 D Bonds are being purchased by the Underwriters for reoffering at an aggregate purchase price of \$60,188,669.35. The purchase price reflects an aggregate Underwriters' discount of \$397,800.00 from the initial public offering prices set forth or reflected on the cover page of this Official Statement which price includes net original issue premium in the amount of \$586,469.35. The bond purchase contract provides that the Underwriters will purchase all of the Series 2002 D Bonds if any are purchased. The obligations of the Bond Bank to deliver the Series 2002 D Bonds and of the Underwriters to accept delivery of the Series 2002 D Bonds are subject to various conditions contained in the bond purchase contract.

The Underwriters have agreed to make a bona fide public offering of all of the Series 2002 D Bonds at prices not in excess of the initial public offering prices set forth or reflected on the cover page of this Official Statement. The Underwriters may offer and sell the Series 2002 D Bonds to certain dealers (including dealers depositing the Series 2002 D Bonds into investment trusts) at prices lower than the public offering price.

## **AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION**

Separate audited financial reports of the State and the Bond Bank, respectively, (collectively, the "Financial Reports") are prepared annually and are presently available for the year ended June 30, 2001, and prior years. No financial reports related to the foregoing entities are prepared on an interim basis and there can be no assurance that there have not been material changes in the financial position of the foregoing entities since the date of the most recent available Financial Statements. Upon request and receipt of payment for reasonable copying, mailing and handling charges, the Bond Bank will make available copies of the most recent Financial Reports, any authorizing or governing instruments defining the rights of owners of the Series 2002 D Bonds or the owner of the Qualified Obligation and available financial and statistical information regarding the Bond Bank and the Qualified Entity. Requests for documents and payments therefor should be directed and payable to the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204.

## **CONTINUING DISCLOSURE**

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent, certain annual financial information and operating data described below.

Pursuant to the terms of the State's Continuing Disclosure Undertaking Agreement (the "Undertaking"), the State will agree to provide the following information as long as the State is an "obligated person" (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Undertaking):



1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") then in existence and to the Indiana state information depository then in existence, if any (the "State Depository"), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 2002, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 210 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2002, the Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Information when they become available; and

2. Financial Information in this Official Statement. To each NRMSIR then in existence and to the State Depository as soon as practicable following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2002, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix A - "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA."

(The information described in items 1 and 2 above is referred to as the "Annual Information.")

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the State Depository, the following event notices, if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State and Bond Bank may from time to time choose to disseminate other information including other annual information or notice of the occurrence of certain other events, in addition to those listed above. If the State and Bond Bank choose to provide any such additional information, they will have no obligation to update such information or include it in any future Annual Information or Event Notice ("Event Notice").

The Qualified Entity: while the Series 2002 D Bonds are outstanding, the Qualified Entity has agreed to provide the Bond Bank the following information while its Qualified Obligation is outstanding:

Audited Financial Statements. To each NRMSIR then in existence and to the State Depository, if any, when and if available, the audited financial statements of the Qualified Entity within sixty (60) days of receipt of such statements from the Qualified Entity's accountants.

Quarterly Unaudited Financial Statements. To each NRMSIR then in existence and to the State Depository, if any, within 30 days of the end of each fiscal quarter, unaudited interim balance sheets and statements of revenue and expenses of the Qualified Entity.

#### **Failure to Disclose**

In a timely manner, the Trustee shall notify each NRMSIR or the Municipal Securities Rulemaking Board, and the State Depository of any failure on the part of the State to provide the Annual Information. If any information

relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR then in existence and to the State Depository along with the Annual Information required as specified above and containing such information as is still available, will satisfy such party's undertaking to provide the Annual Information. To the extent available, such party will cause to be filed along with the Annual Information operating data similar to that which can no longer be provided.

### **Accounting Principles**

The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

The Undertaking is solely for the benefit of the holders and Beneficial Owners of the Series 2002 D Bonds and creates no new contractual or other rights of the SEC, any underwriters (other than the Underwriters), brokers, dealers, municipal securities dealers, potential customers, other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State's disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Series 2002 D Bonds, the Indenture or any other agreement to which the State or the Bond Bank, or any instrumentality or officer thereof, is a party.

The remedy set forth in the preceding paragraph may be exercised by the Trustee or any holder or Beneficial Owner of the Series 2002 D Bonds who may seek specific performance by court order to cause the State or the Bond Bank to comply with its obligations under the Undertaking.

### **Modification of Undertaking**

The Bond Bank, State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the Beneficial Owners of the Series 2002 D Bonds if: (i) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or Beneficial Owners of the Series 2002 D Bonds as determined either by (a) any person selected by the State that is unaffiliated with the State (including the Counterparty as Trustee under the Indenture) or (b) is approved by the holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the holders; or (c) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by the Rule.

The Annual Information for the fiscal year during which any such amendment or waiver occurs that contains the amended or waived Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of information being provided in the Annual Information.

Copies of the Undertaking are available from the Bond Bank upon request.

### **Compliance with Previous Undertakings**

In the previous five years, the Bond Bank and the State have not failed to comply in all material respects with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

## **MISCELLANEOUS**

All quotations from, and summaries and explanations of, the Act and the Indenture contained in this Official Statement do not purport to be complete, and reference is made to each such document or instrument for full and complete statements of its provisions. The attached Appendices are an integral part of this Official Statement and must be read together with all of the foregoing statements. Copies in reasonable quantity of the Act, the Indenture and the supplemental materials furnished to the Bond Bank by the Qualified Entity may be obtained upon request directed to the Bond Bank.

Neither any advertisement of the Series 2002 D Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Series 2002 D Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement has been duly approved, executed and delivered by the Bond Bank. The Bond Bank will provide copies of this Official Statement to the Underwriters to be distributed to the purchasers of the Series 2002 D Bonds.

### **INDIANA BOND BANK**

By: /s/ TIM BERRY  
Tim Berry, Chairman Ex Officio

Approved:

### **THE BOARD OF TRUSTEES OF HENDRICKS COUNTY HOSPITAL**

By: /s/ P. DANIEL REED, M.D.  
P. Daniel Reed, M.D., Chairman

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**APPENDIX A**  
**FINANCIAL AND ECONOMIC**  
**STATEMENT FOR THE STATE OF INDIANA**

**APPENDIX A**

**FINANCIAL AND ECONOMIC**

**STATEMENT FOR THE STATE OF INDIANA**

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## **I. INTRODUCTION**

This Financial and Economic Statement (the “Statement”) for the State of Indiana (the “State”) includes a discussion of the State’s economic and fiscal condition, the results of operations for the past five years and revenue and expenditure projections through the end of the biennium ending June 30, 2003. The information has been compiled on behalf of the State by the Indiana State Budget Agency and the Public Finance Office and includes information and data taken from the Agency’s unaudited year-end budget reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled “Litigation” has been furnished by the office of the State Attorney General.

The State expects to update the entire Statement at least annually after the close of each Fiscal Year (as defined herein). The status of this Statement or any updates or supplements may be obtained by contacting the Indiana State Budget Agency, Room 212, State House, Indianapolis, IN 46204, Tel: (317) 232-5610. This Statement should be read in its entirety together with any updates or supplements.

The General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2001 are Exhibit A-1 to this Appendix A.

## **II. STRUCTURE OF STATE GOVERNMENT**

### **Division of Powers**

The State constitution divides the powers of the State’s government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

### **Executive Department**

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to “take care that the laws are faithfully executed.” The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”) may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). There are approximately 400 boards and agencies that are responsible to the Governor. If the Governor vacates the office or is unable to discharge the Governor’s duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The State Treasurer is responsible for holding and investing all State revenues and disburses money upon warrants issued by the State Auditor. The State Treasurer is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The State Treasurer is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The State Auditor maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The State Auditor is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The State Auditor is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Information Technology Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

### **Legislative Department**

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in odd-numbered years. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representative select the Speaker from among the ranks of the House. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

### **Judicial Department**

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.



### III. FISCAL POLICIES

#### **Fiscal Years**

The State's Fiscal Year is the 12-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

#### **Accounting System**

The State maintains a central accounting system that processes all payments for State agencies and institutions with the exception of State colleges and universities. The State Auditor is responsible for the pre-audit of all payments, the issuance of all State warrants and the maintenance of the State-wide accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis to the modified accrual basis of accounting in accordance with generally accepted accounting principles for financial reporting purposes. The general purpose financial statements of the State for the Fiscal Year ended June 30, 2001, together with the independent auditors' report thereon, are included in the General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2001, attached hereto as Exhibit A-1.

#### **Fund Structure**

Funds are used to record the activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

##### ***Governmental Funds***

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for instance, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTRF" or "PTR Fund") is also reported as a Special Revenue Fund by the State Auditor. The PTRF is funded from 40% of State sales and use tax revenues and a portion of corporate adjusted gross income tax receipts. The Property Tax Replacement Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund, so as to provide the most complete and accurate description possible of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTRF are sometimes discussed in this Appendix A as a single, combined fund. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are both corporate and politic and have the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

### ***Proprietary Funds***

Proprietary Funds use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Proprietary Funds include the following fund types:

Enterprise Funds are used to account for operations established to provide services to the general public in a manner similar to private business enterprises. Cost of providing the goods or services are financed or recovered primarily through user charges. Enterprise Funds include the Inns and Concessions Fund, Toll Bridges Fund, Toll Roads Fund, State Lottery Commission Fund, Malpractice Insurance Authority Fund and Political Subdivision Insurance Fund.

Internal Service Funds are used to account for the operations of State agencies that render goods or services to other agencies or governmental units on a cost-reimbursement basis. Internal Service Funds include the Institutional Industries Fund, Administration Services Rotary Fund, State Office Building Commission Fund, Recreational Development Commission Fund and Self-Insurance Funds.

### ***Fiduciary Funds***

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds, and they are broken down into four broad categories:

Expendable Trust Funds. The State maintains various Expendable Trust Funds to account for resources the State holds as a trustee. The principal and earnings on this fund type may be used for purposes designated by trust agreement. Expendable Trust Funds include the Unemployment Funds and Health Insuring Organization Funds.

Non-Expendable Trust Funds. The State maintains a limited number of Non-Expendable Trust Funds to account for resources the State holds as a trustee. The principal must be preserved and only the earnings may be used for purposes designated by trust agreement. The most significant Non-Expendable Trust Fund is the Common School Fund. The Common School Fund was established by the State constitution and is comprised of fines, forfeitures and escheated estates. Interest on the Common School Fund may only be used to aid local schools.

Pension Trust Funds. The State maintains pension funds for State and local officers and employees and accounts for each type of pension in a separate fund. Such funds are accounted for in the same way as Proprietary Funds. See "STATE RETIREMENT SYSTEMS."

Agency Funds account for resources that are custodial in nature. Agency Funds generally include amounts held by the State on behalf of third parties. Agency Funds include the Deferred Compensation Fund, Institutional Funds, Department of Insurance Fund and State Police Employee Insurance Fund.

### ***Account Groups***

In addition to the fund types described above, the General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes, including all fixed assets except those accounted for in Proprietary and Pension Trust Funds. Public domain fixed assets,

including highways, curbs, lighting systems, highway land and rights-of-way, are not included.

The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

## **Budget Process**

The State Budget Agency is responsible for preparing the State budget. After the State budget is enacted, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

***Budget Committee.*** The State Budget Committee consists of the State Budget Director and four senior State legislators. The Committee oversees the preparation of the budget and its administration after enactment. The legislative members of the Committee consist of two members of the Senate, appointed by the President *pro tempore*, and two members of the House of Representatives, appointed by the Speaker. One of the two appointees from each house must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective house and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses. By statute, the Budget Committee is required to meet at least once during the two-month period after the adjournment of each regular session of the General Assembly and, beginning in July, at least once each month and upon call of the chair.

***Budget Development.*** The State's budget process is set out in statute. The State operates under a biennial budget. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request.

In September of each even-numbered year, the Budget Committee begins hearings on each budget request. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor. The Budget Committee's recommendations are tentative, pending review of revenue projections for the next biennium, which typically are available late in the second quarter of the Fiscal Year.

***Revenue Projections.*** Revenue projections are prepared by the Indiana Economic Forecast Committee and the Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that are employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of five economists within the State and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee and jointly appoint one individual from a higher education institution. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee. However, the Economic Forecast Committee does provide the economic assumptions used by the Technical Forecast Committee in preparing the State's revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

***Budget Report.*** The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by

the Budget Agency and the information obtained through the hearings and other inquiries. In the event the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bills, the recommendation of the Budget Agency is included in the budget bills. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee, must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bills to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bills first and sends them to the Senate for consideration.

The budget report includes at least these five parts: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the capital improvement program for the State and (e) the budget bill.

### **Appropriations**

***Appropriations.*** Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the State Auditor and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance during the next Fiscal Year. The State Auditor then establishes the necessary accounts based upon the list.

***Transfers.*** The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may transfer, assign or reassign all or any part of any appropriation made to any agency for one specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

***Contingency Appropriations.*** The General Assembly may also make "contingency appropriations" to the Budget Agency. Contingency appropriations are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorize expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;
3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or
4. without limiting the foregoing, supplementation of an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project. (No such funds

may authorize a purpose that was included in the budget bills to the previous General Assembly but was wholly omitted by the General Assembly.)

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

### **State Board of Finance**

The State Board of Finance (the “Board”) consists of the Governor, the State Treasurer and the State Auditor. The Board elects from its membership a president, who by tradition is the Governor. By law, the State Auditor is the secretary of the Board. The Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Board may transfer money between State funds, except trust funds, and the Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting “casual deficits” in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Board has never exercised its authority to levy a tax.

### **Rainy Day Fund**

In 1982, the General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund, which is commonly called the “Rainy Day Fund.” The Rainy Day Fund was established to permit the State to collect and maintain substantial general purpose tax revenues during periods of economic expansion for use during periods of economic recession. In effect, the Rainy Day Fund is a statutorily required State savings account.

Each year the State Budget Director determines calendar year Adjusted Personal Income (“API”) for the State and its growth rate over the previous year. API is determined by dividing the calendar year State personal income (excluding transfer payments made in the State) by the implicit price deflator for the Fiscal Year ending in the aforementioned calendar year; the result is multiplied by 100. The annual growth rate in API for a particular calendar year is calculated by dividing the difference between API for such year and API for the immediately preceding calendar year by the amount of API for the immediately preceding calendar year. This change in API is the sole factor in determining whether General Fund revenues are transferred to the Rainy Day Fund or whether moneys in the Rainy Day Fund revert to the General Fund. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0%; moneys are removed automatically from the Rainy Day Fund if API declines by more than 2.0%.

By law, “automatic” appropriations to and from the General Fund are determined as follows:

1. If the growth rate of API for the calendar year immediately preceding the current calendar year is greater than 2.0%, an amount is appropriated from the General Fund for the Fiscal Year beginning in the current calendar year which equals the total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the growth rate in API less two percentage points.
2. If API declines by more than 2.0% for the calendar year immediately preceding the current calendar year, the amount appropriated to the General Fund for the Fiscal Year beginning in the current calendar year equals total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the decline in API less two percentage points.

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal

Year and (b) the amount necessary to balance the General Fund budget for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Moneys in the Rainy Day Fund at the end of the Fiscal Year do not revert to the General Fund. If the balance in the Rainy Day Fund at the end of the Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund into the PTRF.

The 2001 General Assembly enacted a number of special provisions designed to help balance the budget for the 2001-2003biennium. Two such provisions involve possible transfers from the Rainy Day Fund to the General Fund. For a detailed explanation of these transfers and their impact on the 2001-2003biennial budget, see “FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Rainy Day Fund” and Table 3 for further discussion of Rainy Day Fund balances and transfers.

### **Cash Management and Investments**

The State Treasurer is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The State Treasurer is responsible for investing the General Fund, PTRF, Rainy Day Fund and more than 60 other funds.

Allowable investments. Repurchase agreements are used for short-term cash management purposes and must be fully collateralized by certain obligations of the United States government or its agencies (determined on the basis of current market value). The majority of investments are obligations backed by the full faith and credit of the United States and certificates of deposit in Indiana financial institutions; however, the State Treasurer is also authorized to invest in obligations issued by agencies and instrumentalities of the United States. Rates on certificates of deposit are established by prevailing market conditions. Deposits are subject to coverage by the Indiana Public Deposit Insurance Fund in the event of depository closure; provided that the deposits were invested according to the investment requirements of Indiana Code 5-13. Pursuant to State statute, the Treasurer may invest no more than 25% of the State’s portfolio in securities with a final maturity exceeding five years. The remainder of the portfolio may not have final maturities exceeding two years.

### **Audits**

The State Board of Accounts was created by the General Assembly in 1909 as a separate State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of governments it audits, including the State general purpose financial statements prepared by the State Auditor. See Exhibit A-1, including the “Independent Auditor’s Report” therein.

## IV. STATE BUDGET PROFILE

### Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as State Operating Revenues ("Operating Revenues"). Operating Revenues are defined as the total of General Fund and PTRF revenues forecasted by the Technical Forecast Committee. Total Operating Revenues together with DSH revenues transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. DSH revenues are extra Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

### Major General Fund and PTR Revenue Sources

Sales and use, corporate and individual income taxes are the three primary sources of State Operating Revenues (as hereinafter defined). In Fiscal Year 2001, combined revenues from those sources comprised about 91.9% of total State Operating Revenues. The following is a summary description of each of those revenue sources. See "FINANCIAL RESULTS OF OPERATIONS," including Table 5, "Combined General and PTR Fund."

***Individual Adjusted Gross Income Tax.*** Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents derived from Indiana sources is taxed at 3.4%.

All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund. For Fiscal Year ended June 30, 2001, the \$3,779.8 million in receipts from the adjusted gross income tax on individuals constituted approximately 41.8% of total State Operating Revenues. State individual income tax rates were last increased effective for Calendar Year 1988.

***Sales and Use Taxes.*** A 5.0% sales tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 5.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs. Of the receipts collected, 59.03% of the sales and use taxes are credited to the General Fund, 40.00% to the PTRF, 0.76% to the Public Mass Transportation Fund, 0.17% to the Commuter Rail Service Fund and 0.04% to the Industrial Rail Service Fund.

For Fiscal Year ended June 30, 2001, the \$3,686.8 million in receipts from the sales and use taxes deposited in the General Fund and PTRF constituted approximately 40.7% of State Operating Revenues. The State sales and use tax rate was last increased in Fiscal Year 1983.

***Corporate Income Taxes.*** There are three major corporate income taxes: the gross income tax, the adjusted gross income tax and the supplemental net income tax. Corporations are generally subject to both the gross income tax and the adjusted gross income taxes; however, as a result of a statutory credit provision, corporations

annually pay an amount equal to the greater of the liabilities computed under the gross income tax and the adjusted gross income tax, plus the supplemental net income tax. There is also a financial institutions tax.

Subject to certain exemptions, the gross income tax is generally imposed on the gross receipts of corporations (and certain other taxpayers) that derive income from business within the State. While there are generally no deductions allowed for costs, losses or expenses, some taxpayers (including certain insurance companies, credit companies, wholesale grain and soybean dealers, wholesale grocers, livestock dealers and livestock slaughterers) are taxed on a gross “earnings” basis. In general, receipts from sales made in interstate commerce are exempt.

Gross receipts subject to the gross income tax are taxed at one of two rates, depending upon the transaction being taxed. The lower rate (0.3%) is imposed on receipts from retail sales, wholesale sales, display advertising, dry cleaning and other activities. The higher rate (1.2%) is imposed on all receipts which are not specifically defined to be taxed at the lower rate, including receipts from certain rentals, service income, utility services, earnings on intangibles and sales of realty. All gross income tax receipts are credited to the General Fund.

The adjusted gross income tax is generally applicable to corporations doing business in the State. The tax rate is 3.4% of adjusted gross income derived from sources within the State. Adjusted gross income is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax.

Part of the adjusted gross income tax collections is allocated to the General Fund on the basis of a statutory formula and the balance is credited to the PTRF. See “FISCAL POLICIES—Fund Structure—Governmental Funds.”

The supplemental net income tax is imposed on all corporations subject to the adjusted gross income tax and on certain domestic insurance companies. The 4.5% tax rate is applied to the supplemental net tax base of the taxpayer. The supplemental net tax base is Indiana adjusted gross income less the greater of (a) the amounts paid under the adjusted gross income tax and (b) the amount paid under the gross income tax. There are no deductions or exemptions under the supplemental net income tax; however, the corporate gross income tax credits apply. All receipts from the supplemental net income tax are credited to the General Fund.

The financial institutions tax is imposed on each corporation that is transacting the “business of a financial institution” in Indiana. The financial institutions tax is a franchise tax on financial institutions, at a rate of 8.5% of adjusted or apportioned income, for the privilege of exercising their franchise or transacting business within the State. Certain exemptions from and credits against the financial institutions tax are available. A taxpayer subject to the financial institutions tax is exempt from the corporate gross income, adjusted gross income and supplemental net income taxes and State banking taxes. All receipts from the financial institutions tax are credited to the Financial Institutions Tax Fund. By statutory formula, a substantial amount of the moneys in such fund must be transferred to counties for distribution to the taxing units within the counties. The remainder is transferred to the General Fund.

For Fiscal Year ended June 30, 2001, corporate income and financial institutions tax receipts totaled \$855.3 million and constituted approximately 9.4% of State Operating Revenues. State corporate income tax rates were last increased effective for Calendar Year 1987.

***Other Operating Revenues.*** Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. Revenue from these sources together totaled about \$730.1 million or about 8.1% of total Operating Revenues in Fiscal Year 2001.

## **Revenue History**

Individual and sales and use tax receipts increased in each Fiscal Year of the Discussion Period. Corporate income tax receipts declined in Fiscal Years 2000 and 2001, a portion of which can be attributed to tax cuts enacted by the General Assembly in 1999. Annual percentage changes for each component of Operating Revenues are reflected in Table IV-1 shown below. On November 14, 2001 the Economic Forecast Committee presented to the State Budget Committee updated economic projections for the remainder of Fiscal Year 2002 and Fiscal Year 2003.



At the same time, the Technical Forecast Committee released a revised estimate of Operating Revenues for Fiscal Years 2002 and 2003. The November forecast was significantly lower than the April 2001 forecast. These new estimates are reflected in Table IV-1 shown below. See “Financial Results of Operations- Revenue Forecast”.

**Table IV-1  
State Operating Revenues  
Growth in State Operating Revenues**

<b>State Revenue for Fiscal Years 1996 - 2001</b>					
<b>in millions</b>					
	<b>Sales Tax</b>	<b>Individual Income</b>	<b>Corporate Income</b>	<b>Other</b>	<b>Total</b>
<b>FY 1996</b>	2,942.3	2,966.3	982.0	622.4	7,513.0
<b>FY 1997</b>	3,112.9	3,196.5	999.3	661.6	7,970.2
<b>FY 1998</b>	3,250.9	3,434.8	1,015.5	720.2	8,421.4
<b>FY 1999</b>	3,396.0	3,699.3	1,044.4	743.5	8,883.2
<b>FY 2000</b>	3,651.4	3,753.3	985.3	752.7	9,142.7
<b>FY 2001</b>	3,686.8	3,779.8	855.3	730.1	9,052.0
<b>Forecasted FY 2002</b>	3,791.4	3,731.6	830.0	652.5	9,005.5
<b>Forecasted FY 2003</b>	3,891.6	3,857.0	855.0	645.9	9,249.5
<b>% Change from Prior Year</b>					
<b>FY 1997</b>	5.8%	7.8%	1.8%	6.3%	6.1%
<b>FY 1998</b>	4.4%	7.5%	1.6%	8.9%	5.7%
<b>FY 1999</b>	4.5%	7.7%	2.8%	3.2%	5.5%
<b>FY 2000</b>	7.5%	1.5%	-5.7%	1.2%	2.9%
<b>FY 2001</b>	1.0%	0.7%	-13.2%	-3.0%	-1.0%
<b>Average</b>	4.6%	5.0%	-2.5%	3.3%	3.8%
<b>Forecasted FY 2002</b>	2.8%	-1.3%	-3.0%	-10.6%	-0.5%
<b>Forecasted FY 2003</b>	2.6%	3.4%	3.0%	-1.0%	2.7%

Source: State Budget Agency

## Lottery and Gaming Revenues

All lottery and gaming revenues are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. By statute, certain revenues from the Hoosier Lottery and the riverboat gaming wagering tax, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, “Gaming Revenues”) must be deposited in the Lottery and Gaming Surplus Account (the “Surplus Account”) of the Build Indiana Fund.

In 1999, the General Assembly increased the annual transfer of Hoosier Lottery revenues dedicated to funding state and local pension liabilities from \$40.0 million to \$60.0 million - \$30.0 million to the State Teachers Retirement Fund and \$30.0 million to the Local Police and Fire Pension Relief Fund. At present, the highest distribution priority (after pension account transfers) is to the State’s counties for motor vehicle excise tax replacement, providing for a substantial cut in the excise tax charged on motor vehicles - \$234.7 million for Fiscal Year 2001. All Gaming Revenue funds are subject to discretionary appropriation by the General Assembly. Gaming Revenues are dedicated funds and not included in State Operating Revenues. However, Gaming Revenues represent a significant source of discretionary income to the State. For Fiscal Year 2001, lottery and gaming revenues totaling \$455.1 million were collected by the State from the following sources:

Hoosier Lottery	\$160.0 million
Riverboat gaming	\$260.2 million
Horse racing	\$2.0 million
Charity gaming	\$6.0 million
Interest earnings	\$26.9 million

From 1989 through June 30, 2001, lottery and gaming revenues totaling \$3.081 billion were collected by the State from the following sources:

Hoosier Lottery	\$1,936 .0 million
Riverboat gaming	\$995.7 million
Horse racing	\$15.3 million
Charity gaming	\$33.7 million
Interest earnings	\$100.6 million

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Source: State Budget Agency

At the end of Fiscal Year 2001, the State had an unobligated balance of \$347.3 million in the Surplus Account. In addition, new lottery and gaming revenues available to the State for the 2002-2003 biennium are estimated to total \$465.2 million per year.

Although it has been State policy to not use Gaming Revenues to fund operating expenses of the State, the 2001 General Assembly made a decision to use excess Gaming Revenues in the Surplus Account on a temporary basis to help offset General Fund revenue decreases resulting from the current economic slowdown. See “FINANCIAL RESULTS OF OPERATIONS – 2001-2003 Biennial Budget”.

### **The State’s 2002-2003 Biennial Budget**

Based on the April 11, 2001 revised Revenue Forecast, which projected lower revenues over the budget biennium, the 2001 General Assembly adopted a financial plan that relied on the three following actions to address the potential revenue shortfall in the 2001-2003 budget:

- Transfers to the General Fund-Property Tax Replacement Fund from the Gaming Surplus Account and the Rainy Day Fund.

The 2001 General Assembly included a provision in the State’s 2002-2003 biennial budget to transfer \$200 million in Fiscal Year 2002 and \$175 million in Fiscal Year 2003 from the Build Indiana Fund to the Property Tax Replacement Fund (PTRF). This increases the amount available to spend from the General Fund-PTRF by \$375 million for the biennium. See “STATE BUDGET PROFILE—Lottery and Gaming Revenues.”

The State’s 2002-2003 biennial budget also provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund. First, the budget establishes a maximum balance in the Rainy Day Fund for the 2002-2003 biennium. The maximum is effectively set at the Fund balance existing on June 30, 2001, \$526 million. The Budget Agency estimates this provision will result in a transfer of \$26.3 million from the Rainy Day Fund to the General Fund in each year of the biennium.

Second, with the approval of the Governor, and after review by the State Budget Committee, the Budget Agency may transfer, in each year of the biennium, from the Rainy Day Fund to the General Fund, amounts determined by the Budget Director to be necessary to maintain a positive balance in the General Fund. This provision effectively permits the Budget Agency to transfer funds from the Rainy Day Fund to the General Fund to cover all General Fund-PTRF spending authorized in the biennial budget. It is currently estimated that no Rainy Day Fund transfers (other than those explained in the preceding paragraph) will be needed during the 2002-2003 biennium to balance the General Fund—PTRF budget. However, this provision exists and is available should actual revenue collections fall short of the State revenue forecast period.

- Delays in payments for local school aid, higher education and property tax relief have been scheduled. Although the General Assembly appropriated a full years funding for each year of the biennium for local school aid, higher education and property tax relief, the budget passed by the General Assembly effectively permits the Budget Agency to delay until Fiscal Year 2003 one regular payment for each purpose that would otherwise have been made in Fiscal Year 2002. A payment delay of \$537.8 million for K-12, Higher Education, and Local Units will occur in fiscal year 2002. Because these recipients are on a calendar year, these delays, while impacting the fiscal year-end for the State, result in only a few days of cash flow changes for the recipients.
- Modest spending reductions in general governmental operations. The final spending plan agreed to by the Governor and the General Assembly for the 2002-2003 biennium increased the requirement for General Fund-PTRF reversions – funds appropriated but left unspent at the end of a Fiscal Year - by \$25 million for each year. It is expected that under the direction of the Governor, the Budget Agency will selectively reduce budget allotments to create the mandatory reversions. See “FISCAL POLICIES—Accounting System.”

The actions outlined above permitted passage of a budget that included funding increases for essential governmental services and made strategic economic investments for the 2002-2003 biennium. Those appropriation increases can be described in four broad categories:

- Education, reflecting the State’s commitment to invest in primary, secondary and higher education.
- Economic Development, showing a continuing commitment to support the development and use of new technology and promote economic development.
- Public Safety, including increased spending to open and operate two new correctional facilities.
- Social Services, to improve the care of developmentally and mentally challenged adults and children.

For Fiscal Year 2002, the first year of the new biennium, estimated spending for the five largest functional categories total \$8,499.9 million, or about 82.8% of the General Fund - PTR Fund combined total. Following is a discussion of those five largest categories. Numbers are derived from the Budget Agency’s biennial List of Appropriations and unaudited working statements. See “FINANCIAL RESULTS OF OPERATIONS,” including “Table 5, Combined General and PTR Fund.”

**Local School Aid.** The State’s largest operating expense payable from both the General Fund and PTRF is for local school aid. Local school aid includes distributions for programs such as assessment and performance in addition to direct tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTRF. The General Assembly established the State’s calendar year 1972 funding level as a base for local school aid.

Local school formula funding for direct tuition support on a school by school basis increased by an average of 3.5% for calendar years 2002 and 2003 with no school corporation receiving an increase of less than 2.0% in regular tuition dollars. Combined local school aid appropriations for Fiscal Year 2002 from the General Fund—PTRF total \$4,172.3 million and constituted 40.6% of the combined General Fund—PTRF budget.

The 2002-2003 biennial budget also included funding for several new or expanded initiatives. The budget included \$20 million for professional teacher development in Fiscal Year 2003, \$10 million per year to implement full day kindergarten, \$2.5 million per year for reading diagnostic assessment and funding to move the kindergarten enrollment date from June 1 to July 1.

**Higher Education.** The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. Higher education aid includes appropriations to State-supported higher education institutions equal to debt service due on qualified debt of such institutions. See “Fee Replacement Appropriations to State Universities and Colleges” below. General Fund appropriations for higher education for Fiscal Year 2002 total \$1,410.9 million and constitute about 13.7% of the estimated combined General and PTR Fund spending level. This

represents an increase for Higher Education of about \$33.4 million, or 2.4%, over estimated Fiscal Year 2001 spending.

Appropriations for the 2002-2003 biennium include \$3.25 million per year for additional community college start-ups, \$6 million to freeze fees at Vincennes University and Indiana Vocational Tech College in support of the community college program and \$4.8 million for a new School of Informatics at Indiana University.

#### Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The annual Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the present policy will continue for outstanding bonds and notes.

The estimated aggregate principal amount of bonds and notes issued by State universities and colleges and outstanding on June 30, 2001, which is eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations with respect thereto for Fiscal Year 2002 is shown below.

	Estimated Amount of Debt Outstanding June 30, 2001	Fiscal Year 2002 Fee Replacement Appropriation
Ball State University	\$ 61,840,000	\$ 9,460,987
Indiana University <sup>(1)</sup>	399,389,738	52,323,279
Indiana State University	64,885,000	7,159,560
Indiana Vocational Tech College	69,527,000	10,044,038
Purdue University <sup>(2)</sup>	219,287,921	33,643,833
University of Southern Indiana	35,541,902	3,989,274
Vincennes University	<u>14,032,908</u>	<u>2,070,468</u>
Total	\$864,504,469	\$118,691,439

<sup>(1)</sup> Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

<sup>(2)</sup> Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education.

**Property Tax Relief.** The third largest operating expenditure, payable solely from the PTRF, is for property tax relief. The budget for the 2002-2003 biennium extended the Homestead Credit at 10% until December 31, 2003. The 10% level was set to expire and return to 4% on December 31, 2001. Spending for property tax relief, including the Homestead Credit and additional credits enacted by the 2001 General Assembly is expected to total \$1,179.8 million for Fiscal Year 2002, about 11.5% of the combined General Fund-PTRF spending level. See "STATE BUDGET PROFILE—Revenue Reductions."

**Medicaid.** The fourth largest operating expenditure, payable largely from the General Fund is the State's share of Medicaid assistance. Nursing Home Care remains the largest component of Medicaid spending, about \$878.6 million for Fiscal Year 2002, and prescription drug costs are the fastest growing category of Medicaid expense, with costs of \$676.4 million in Fiscal Year 2002 projected to rise 17% by Fiscal Year 2003. The General Assembly set appropriations for the State share of Medicaid at \$1,171.0 million for Fiscal Year 2002, about 11.4% of combined General Fund-PTRF spending level. The budget included funding for increased base spending on Medicaid as a result of an expansion of Medicaid eligibility criteria. In addition, the General Assembly directed FSSA to undertake an aggressive package of cost containment initiatives aimed at reducing the growth in State spending for Medicaid for Fiscal Years 2002-2003.

Cost containment initiatives were expected to result in decreased expenditures of up to \$81 million for Fiscal

Year 2002 and \$120 million for Fiscal Year 2003. However, the December 2001 forecast anticipates an additional \$44.5 million in state expenditures over the biennium due primarily to enrollment growth in the adult and children aid categories. In late June, the State lost a lawsuit to Patricia Day (Day Case), which changes the medical eligibility criteria for determining whether an applicant is eligible to receive Medicaid disability benefits. See "LITIGATION". The December 2001 forecast also incorporates prospective Day expenditures totaling \$63.9 million over the biennium. The retroactive eligibility of Day is estimated at \$322.7 million. Based on the current appropriation, Medicaid faces a shortfall of state funds of \$76.7 in Fiscal Year 2002 and \$154.6 in Fiscal Year 2003. Although some of the components comprising the deficit changed (enrollment increases and Day estimate), the net deficit remains basically unchanged from the April forecast.

In January 2002, FSSA outlined a series of proposals and program reforms designed to achieve \$255.1 million in Medicaid savings. These savings are designed to bring total Medicaid expenditures back in line with budgeted appropriations for the 2002-2003 biennium.

**Department of Correction.** The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. To meet a growing prison population, the 1997 General Assembly authorized the State Office Building Commission to issue bonds to finance the construction of: (1) Phase I of the Miami Correctional Facility, an additional medium security facility to provide 1,400 beds for adult males in Miami County, Indiana; (2) an additional 350 bed correctional facility for male juveniles near Pendleton, Indiana; and, (3) a special needs facility with 1,800 beds to be converted from an existing State institution near New Castle, Indiana. In addition, the 1999 General Assembly authorized the State Office Building Commission to issue bonds to finance Phase II of the Miami Correctional Facility. Phase I of the Miami Correctional Facility was completed in July, 1999. The Pendleton Juvenile Facility opened in July, 2000. Phase II of the Miami Correctional Facility opened in August 2001. See "STATE INDEBTEDNESS – Table 7 – Schedule of Long Term Debt Obligations Payable from Possible State Appropriations." The New Castle Correctional Facility is expected to be open and start receiving inmates in the Spring of 2002. The opening of these two new facilities will cause spending for corrections to grow in the 2002-2003 biennium. Appropriations for the Department of Correction for Fiscal Year 2002 total \$565.9 million, an increase over actual Fiscal Year 2001 spending of about \$34.3 million or 6.5%. Department of Correction accounts for about 5.5% of total General Fund-PTRF appropriations for Fiscal Year 2002.

**Other.** The balance of State expenditures is comprised of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, State administrative operations, the State's share of public assistance payments, the General Fund's one-half share of State Police costs, State economic development programs and General Fund expenditures for capital budget needs of the State. For Fiscal Year 2002 other combined General Fund-PTRF appropriations total \$1,766.0 million. This constitutes approximately 17.2% of the estimated combined General and PTR Fund spending level for all purposes.

**Transfers.** In addition to direct General Fund expenditures, transfers may be made out of or into the General Fund. The principal transfers are (a) from the General Fund to the PTRF and the Rainy Day Fund or (b) from the Rainy Day Fund to the PTRF and the General Fund and for the 2002-2003 biennium, (c) from the Build Indiana Fund to the General Fund. See "FISCAL POLICIES—Rainy Day Fund," "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund" and "STATE BUDGET PROFILE—Lottery and Gaming Revenues."

## **V. FINANCIAL RESULTS OF OPERATIONS**

### **Fiscal Management**

Indiana's fiscal policy is aimed at building and maintaining strong unappropriated balances and reserves in its Rainy Day and combined General and PTR Fund, while adequately funding education and other essential governmental functions, wisely managing debt issuance and aggressively addressing unfunded liabilities in State pension, or retirement systems, especially the State Teachers' Retirement Fund. See also "STATE RETIREMENT SYSTEMS."

## Revenue Forecast

On November 14, 2001, the Economic Forecast Committee presented to the State Budget Committee projections of Gross Domestic Product (GDP) and personal income for the U.S. and Indiana for the fourth quarter of 2001 through the second quarter of 2003. The Committee expects a relatively shallow and short-lived decline in real GDP. The Committee forecasts real GDP to decline (1.9%) in the 4<sup>th</sup> quarter of 2001 and (1.0%) in the first quarter of 2002. The Committee predicts a modest recovery to begin in the second quarter of 2002 with forecasted quarterly real GDP of 1.5%, 3.1%, 3.0%, 2.9% and 2.8% respectively from the second quarter of 2002 through the second quarter of 2003. The Committee expects personal income growth in the U.S. to average 1.8% in fiscal year 2002 and then rise to 4.0% in fiscal year 2003.

In presenting this forecast, the Economic Forecast Committee suggested a relatively mild U.S. recession primarily due to very stimulative monetary and fiscal policies. In addition, productivity continues to be unusually strong and the inventory correction process is already well toward completion. Because the Committee anticipates a mild recession with consumer spending on durable goods, particularly autos, holding up fairly well, Indiana non-farm personal income is expected to increase only 0.5% less than U.S. personal income this fiscal year and at about the same rate in fiscal year 2003. The Committee forecasts Indiana non-farm personal income to increase 1.3% in fiscal year 2002, and 4.0% in fiscal year 2003.

As a result of the new forecast by the Economic Forecast Committee, the Technical Forecast Committee revised the April, 2001, General Fund-Property Tax Replacement Fund revenue forecast for Fiscal Years 2002 and 2003. The projected slowdown in growth of the economy caused the Technical Committee to lower revenue projections for Fiscal Year 2002 to negative (0.5%) revenue growth for fiscal year 2002 and 2.7% growth for 2003. For a discussion of how this revenue reduction is expected to impact State balances and reserves for the 2001-2003 biennium, see "FINANCIAL RESULTS OF OPERATIONS—Combined General and PTR Fund."

## Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, Tuition Reserve, Medicaid Reserve, and Combined General and PTR Fund. The Medicaid Reserve Account was not included as part of the State's combined balances and reserves prior to June 30, 2001. Each of these funds is described below.

***Rainy Day Fund.*** One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is a statutorily required State savings account that permits the State to collect and maintain substantial revenues during periods of economic expansion for use during periods of economic recession. As described under "FISCAL POLICIES — Rainy Day Fund," The Rainy Day Fund has been funded at the maximum permitted by law in each of the last four Fiscal Years. However, the State's 2001-2003 biennial budget provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund during Fiscal Years 2002 and 2003. See "STATE BUDGET PROFILE, The State's 2002-2003 Biennial Budget."

The 2001 General Assembly increased the amounts that certain local units may borrow from the Rainy Day Fund under certain conditions. If all local units borrow the maximum for which they are now eligible, loans from the Rainy Day Fund could increase by \$11.4 million during the 2002-2003 biennium. All loans are subject to approval of the Board of Finance and must be repaid no later than 10 years from the date the loans are made.

The State has never had any automatic withdrawals from the Rainy Day Fund to the General Fund. Rainy Day Fund balances are reflected on Table V-1.

**Table V-1**  
**Rainy Day Fund**  
**Schedule of Cash Flow**  
**(millions of \$)**

	Actual					Projected	
	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Beginning Cash Balance	\$439.5	\$466.1	\$496.1	\$524.7	\$539.9	\$526.0	\$526.0
Interest Earned <sup>(1)</sup>	25.7	27.2	27.5	29.8	32.2	26.3	26.3
Principal Payments and Sale Proceeds <sup>(2)</sup>	0.7	0.5	0.5	0.5	0.1	-	-
Net Transfers by Law <sup>(3)</sup>	0.2	2.4	0.6	(15.1)	(46.3)	-	-
Transfer to Maintain Balance <sup>(4)</sup>	0.0	0.0	0.0	0.0	0.0	(26.3)	(26.3)
Ending Cash Balance	\$466.1	\$496.1	\$524.7	\$539.9	\$526.0	\$526.0	\$526.0
Maximum Allowable Fund Balance	\$466.1	\$496.1	\$524.7	\$539.9	\$526.0	\$526.0	\$526.0
Loans Outstanding <sup>(5)</sup>	\$2.1	\$1.4	\$0.8	\$0.5	\$0.9	\$12.8	\$12.8

(1) Interest assumed at 5.0% for FY 2002-2003; includes interest payments received on loans made.

(2) Payments of principal received on loans made.

(3) Net Transfers reflect: (a) in FY1997, a \$19.8 million transfer from the General Fund and a \$19.6 million transfer to the PTRF; (b) in FY1998, a \$21.1 million transfer from the General Fund and \$18.7 million transfer to the PTRF; (c) in FY1999, a \$140.9 million transfer from the General Fund and a \$140.3 million transfer to the PTRF; (d) in FY2000, a \$162.1 million transfer to the PTRF and a \$147.0 million transfer from the General Fund; (e) in FY2001, a \$202.5 million transfer to the PTRF and a \$156.2 million transfer from the General Fund.

(4) It is estimated \$26.3 million will be transferred to the General Fund in FY2002 and FY2003 to maintain the June 30, 2001 level of \$526.0 million.

(5) Includes loans totaling \$12,841,652 to City of Hammond, City of Beech Grove, Beech Grove Schools and City of East Chicago. No Further loans may be made without authorization by the General Assembly.

Source: State Budget Agency.

**Tuition Reserve.** The Tuition Reserve is essentially a cash flow device that is intended to ensure that local school aid payments are timely. Pursuant to State statute, prior to each June 1, the Budget Agency is required to estimate and formally establish the reserve for the ensuing Fiscal Year. The Tuition Reserve was maintained at \$120.0 million from Fiscal Year 1977 through Fiscal Year 1988; however, the State steadily increased the amount of the Tuition Reserve from Fiscal Year 1989 through 2000. The Tuition Reserve was set at \$265.0 million for Fiscal Year 2001.

**Table V-2**  
**Tuition Reserve**  
**(millions of \$)**

Actual					Projected	
<u>FY 1997</u>	<u>FY 1998</u>	<u>FY1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
\$ 240.0	\$ 240.0	\$ 255.0	\$ 265.0	\$ 265.0	\$265.0	\$265.0

Source: State Budget Agency

### ***Medicaid Reserve***

In 1995, the General Assembly established the Medicaid Reserve and Contingency Account for the purpose of providing funds for the timely payment of Medicaid claims, obligations and liabilities. Prior to the start of Fiscal Year 2002, the Medicaid Reserve was intended to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of each respective Fiscal Year. For the 2002-2003 biennium, the General Assembly set the Reserve level at \$100 million, and for the first time, the Budget Agency included the Reserve in the State's combined Balances and Reserves. The State used about \$58.5 million of the \$203.8 million balance in the Reserve to pay for an appropriation shortfall for Fiscal Year 2001, leaving a balance in the Reserve of \$145.3 million on June 30, 2001. On July 1, 2001, the Budget Agency transferred \$44.9 million to the General Fund to set the Reserve at the \$100 million level for the 2002-2003 biennium.

***Combined General and PTR Fund.*** The PTRF was created by statute in Fiscal Year 1973. It is funded from 40% of revenues from the State sales and use tax and a portion of corporate adjusted gross income tax receipts. The PTRF is used for two purposes: first, to replace local property tax levies ("PTRF Credits"), which were reduced by the same statute that created the PTRF; and, second, for local school aid. To the extent that the PTRF does not have sufficient revenues to make authorized payments, General Fund transfers may be made to the PTRF. In Fiscal Year 2001, \$721.0 million was transferred from the General Fund to balance the PTRF. It is expected that substantial General Fund transfers will also be required in future Fiscal Years.

The General Fund and the PTRF are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. Therefore, the General Fund and the PTRF are sometimes discussed in this Appendix A as a single, combined fund.

This discussion, and Table 5, summarize the actual results of State operations for the Discussion Period, as well as the Budget Agency's projected financial results of operations for the Fiscal Years ending June 30, 2002 and 2003, for the combined General and PTR Fund.

The financial results summarized in this discussion are derived from the Budget Agency's unaudited end-of-year working balance statements and projections based on the 2002-2003 biennial budget and Revenue Projections released November 14, 2001. The working balance statements are a listing of revenues, expenditures and unappropriated (or working) balances at the end of each Fiscal Year, before adjustment to the modified accrual basis of accounting. As a result, the working balance statements may differ from the results included in the State Auditor's annual reports.

There is not a significant difference in the method of accounting between the working balance statements and the annual reports. Expenditures on the working balance statements include continuing appropriations that were unspent at the end of each Fiscal Year. The unappropriated balance is the cumulative excess of revenues over expenditures on the working balance statements.



Because Revenue Projections were reduced after the 2002-2003 biennial budget was passed, the ending balance for the Combined General and PTR Fund shows a negative balance for Fiscal Years 2002 and 2003. **The State Constitution prohibits the General Fund from falling below zero.** As a result of this structural imbalance, the Governor has ordered cuts in most general government spending and proposed a plan to balance the budget to be considered by the 2002 General Assembly. The details of the Governor's plan are laid out in a later section, see "Governor's Spending Reductions and Balanced Budget Plan" (The Plan).

The Plan relies on a number of actions, some of which can be accomplished administratively and others that require Legislative authority. However, if the legislature does not act, the Governor has the authority to balance the budget through administrative actions and plans are in place to address the budget imbalance regardless of what the Legislature does. The State Budget Agency has the ability to transfer appropriations from one account to another within an agency as long as the accounts do not have non-reversion language. The Budget Agency also has broad authority to control spending through the allotment process as long as the reduction is "necessary" to prevent a deficit financial situation. Pursuant to Section 35 of the 2001-2003 budget bill: "Subject to section 30 of this Act as it relates to the budget committee, the budget agency, with the approval of the governor, may withhold allotments of any or all appropriations as contained in this Act for the 2001-2003 biennium, if it is considered necessary to do so in order to prevent a deficit financial situation."

In addition, the State Budget Director can withhold funds obligated under executory contracts; each state contract contains a mandatory clause. In the event the State Budget Director makes a written determination that funds are not appropriated or otherwise available to support the continuation of performance of the Agreement by the State, the Agreement shall be canceled.

Finally, the State Board of Finance (comprised of the Governor, Treasurer, and Auditor) has the authority to transfer money between agencies. The Board has the authority to borrow money or funds for up to four years to meet "casual deficits" in state revenue, and can levy a property tax to payoff the loans if required. The Board also has a limited ability to transfer gaming or tobacco funds to the extent that the money is in non-reverting funds that are not trust funds.

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**Table V-3:  
Combined General and PTR Fund  
(millions of \$)**

	Actual					Projected	
	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY2002<sup>(1)</sup></u>	<u>FY2003<sup>(1)</sup></u>
Operating Revenues <sup>(2)</sup>	7,970.2	8,421.4	8,883.2	9,142.7	9,052.0	9,005.5	9,249.5
Transfers:							
DSH	74.6	60.5	57.5	57.2	70.9	57.5	57.5
From Lottery and Gaming						200.0	175.0
From Medicaid Reserve					103.4		
From (To) Rainy Day Fund	(0.2)	(2.4)	(0.6)	15.1	46.3	26.3	26.3
<b>Total Revenue</b>	<b>8,044.6</b>	<b>8,479.5</b>	<b>8,940.1</b>	<b>9,215.0</b>	<b>9,272.6</b>	<b>9,289.3</b>	<b>9,508.3</b>
Appropriations and Expenditures							
Local School Aid	3,092.2	3,423.1	3,691.8	3,894.0	4,138.1	4,172.3	4,347.8
Higher Education	1,101.8	1,180.5	1,248.0	1,331.5	1,377.5	1,410.9	1,440.1
PTRF Credits	822.1	873.3	946.7	1,078.6	1,220.0	1,179.8	1,157.0
Medicaid	931.3	913.3	948.5	986.1	1,126.3	1,171.0	1,248.8
Correction	369.5	403.9	410.9	473.5	531.6	565.9	569.0
All Other	1,614.4	1,504.3	1,802.4	1,829.8	1,693.1	1,766.0	1,833.2
<b>Subtotal Appropriations and Expenditures</b>	<b>7,931.3</b>	<b>8,298.4</b>	<b>9,048.3</b>	<b>9,593.5</b>	<b>10,086.6</b>	<b>10,265.9</b>	<b>10,595.9</b>
Less:							
Reversions	-	-	-	-	-	103.0	82.0
Mandatory Reversions	-	-	-	-	-	25.0	25.0
<b>Total Reversions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128.0</b>	<b>107.0</b>
Payment Delays: <sup>(3)</sup>							
Tuition Support	-	-	-	-	-	289.3	-
Higher Education	-	-	-	-	-	94.4	-
PTR Credits	-	-	-	-	-	154.1	-
<b>Total Payment Delays</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>537.8</b>	<b>-</b>
<b>Total Expenditures</b>	<b>7,931.3</b>	<b>8,298.4</b>	<b>9,048.3</b>	<b>9,593.5</b>	<b>10,086.6</b>	<b>9,600.1</b>	<b>10,488.9</b>
Excess (Deficiency) of Revenues Over Expenditures	113.4	181.1	(108.2)	(378.5)	(814.0)	(310.8)	(980.6)
Beginning General Fund Balance	1,024.8	1,138.2	1,319.3	1,211.1	832.6	18.6	(292.2)
Ending General Fund Balance	<u>1,138.2</u>	<u>1,319.3</u>	<u>1,211.1</u>	<u>832.6</u>	<u>18.6</u>	<u>(292.2)</u>	<u>(1,272.8)</u>

- (1) Amounts for FY2002-2003 are merely projections and actual results may differ materially from such projections. Important factors that could cause actual results to differ materially from projections included future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly.
- (2) Operating Revenues are those revenues forecast by the Revenue and Technical Forecast Committee.
- (3) Payment delays reflect the Budget Agency's ability, as authorized by the 2001 General Assembly, to delay until FY2003, one regular payment for each purpose that would otherwise have been made in FY2002.

Source: State Budget Agency

## Combined State Balances and Reserves

The State's total "Balances and Reserves" are defined as the balances in the combined General and PTR Fund, together with the balances in the Rainy Day Fund, the Tuition Reserve and beginning with Fiscal Year 2001, the Medicaid Reserve. To reflect the real level of Balances and Reserves on a continuing basis, they are expressed as a percent of Total Revenues. Table V-4 sets forth a history of total State Balances and Reserves compared to Total Revenues for the past six years and projections for Fiscal Years 2002-2003. Although Fiscal Year 2003 projects a negative Combined Balances and Reserves, the State Constitution prohibits the General Fund from running a negative balance. The Governor has proposed a plan to deal with the projected shortfall, see, "Governor's Spending Reductions and Balanced Budget Plan" (The Plan). However, if the legislature does not act, the Governor has the authority to balance the budget through administrative actions and plans are in place to address the budget imbalance regardless of what the Legislature does, see "Combined General and PTR Fund".

**Table V-4**  
**Combined State Reserves and Balances**  
**(in millions of \$)**

State Fiscal Year	Combined Property Tax-General Fund	Tuition Reserve	Rainy Day Fund	Medicaid Reserve (2)	Total Balances	Total Revenue	Balance as % of Total Revenues
-----Actual-----							
1996	1,024.8	215.0	439.5	N/A	1,679.3	7,569.8	22.2%
1997	1,138.2	240.0	466.1	N/A	1,844.3	8,044.6	22.9%
1998	1,319.3	240.0	496.1	N/A	2,055.4	8,479.5	24.2%
1999	1,211.1	255.0	524.7	N/A	1,990.8	8,940.1	22.3%
2000	832.6	265.0	539.9	N/A	1,637.5	9,215.0	17.8%
2001	18.6	265.0	526.0	100.0	909.6	9,272.6	9.8%
-----Projected-----							
2002	(292.2)	265.0	526.0	100.0	598.8	9,289.3	6.4%
2003	(1,272.8)	265.0	526.0	100.0	(381.8)	9,508.3	-4.0%

- (1) Projected balances are based on the Revenue Forecast dated November 14, 2001 and revenue and spending acts passed by the General Assembly through the 2001 Session.
- (2) The Medicaid Reserve was not included as a part of combined reserves and balances until Fiscal Year 2001.
- (3) Does not reflect any liability for payment delays. (See explanation below)

Source: State Budget Agency

Combined balances and reserves for Fiscal Years 2002 and 2003 shown in Table V-4 do not reflect any liability for payment delays authorized for the 2002-2003 biennium. The Budget Agency estimates payment delays totaling \$537.8 million for Fiscal Year 2002. Delays in payments to schools, universities and local units of government have been authorized by the 2001 General Assembly. See "STATE BUDGET PROFILE—The State's 2002-2003 Biennial Budget." There is no legal obligation for the State to make up for any payments that actually get delayed. And, should actual revenue exceed estimates, the additional revenue could be used to reduce payment delays. However, there is a reasonable expectation that the General Assembly will attempt to make up any payments that do get delayed in the 2002-2003 biennium with increased funding in the 2004-2005 biennium.

The Budget Agency believes the combination of reserves and balances and the ability to delay significant payments, plus other provisions included in the Balanced Budget Plan, provide the State sufficient flexibility to manage the budget even if actual General Fund/PTRF revenues fall significantly short of the State's revenue forecast for the 2002-2003 biennium. If the legislature does not act, the Governor has the authority to balance the budget through administrative actions. See "Governor's Spending Reductions and Balanced Budget Plan." Under Governor O'Bannon's leadership the administration is committed to resolving the state's budget deficit while maintaining essential state services. This resolution will include both one-time and permanent base spending cuts

and/or delays, transfers from reserve accounts, reallocation of tobacco settlement and gaming funds, and revenue enhancements. See “Balanced Budget Plan” table.

### **Governor’s Spending Reductions and Balanced Budget Plan**

On July 11, 2001, Governor O’Bannon announced spending cuts and pledged to aggressively identify ways to address current budget shortfalls. The Governor announced he had instructed the Budget Agency to withhold allotments and set aside 7% of most executive-branch operating budgets. See “FISCAL POLICIES—Accounting System” regarding the Budget Agency’s authority to withhold allotments. However, in calling for fiscal restraint, the Governor announced additional actions designed to reduce State spending as follows:

- Review contracted services and State grants
- Review the State staffing table and personnel costs
- Review State programs for possible suspension, cuts or elimination
- Consider implementing more fee increases

In response to the November 2001 updated revenue forecast, Governor O’Bannon announced his Balanced Budget Plan to resolve the state’s budget deficit and to maintain essential state services. The plan includes a four-pronged approach to deficit management:

- Both one-time and permanent base spending cuts and/or delays
- Transfers from reserve accounts
- Reallocation of tobacco settlement and gaming funds
- Revenue enhancements

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**Table V-5  
Governor's Balanced Budget Plan**

<b>Balanced Budget Plan</b> (in Millions of Dollars)	<b>FY2002</b>	<b>FY2003</b>	<b>One-Time or Base Adjustment</b>	<b>Admin or Leg Action</b>
Delays, Transfers, and Reallocations of Resources				
Payment delays for K-12, Higher Education, and Local Units*	\$537.8	-	One-Time	Admin
Transfer of Rainy Day Fund	\$165.0	-	One-Time	Admin
Reallocate \$10 million Gaming Revenue from Horse Racing	-	\$10.0	One-Time	Leg
Tobacco Trust Fund	\$50.0	\$90.0	Base Adj.	Leg
Replace 10% of "Tuition Support with School CPF Levy	-	\$115.2	One-Time	Leg
Suspend Homeowner Income Tax Deduction & Business Add Back	-	\$162.7	Base Adj.	Leg
<b>Subtotal</b>	<b>\$752.8</b>	<b>\$377.9</b>		
Revenue Enhancements				
Cigarette Tax \$0.50 per Pack (effective May 1, 2002)	\$30.7	\$367.9	Base Adj.	Leg
Increase Gaming Admissions Tax by \$2.00	-	\$84.0	Base Adj.	Leg
Fee Increases	-	\$15.0	Base Adj.	Leg
<b>Subtotal</b>	<b>\$30.7</b>	<b>\$466.9</b>		
One-Time Reversions				
Cuts in Operating Across all Categories EXCEPT Education*	\$113.0	\$209.0	One-Time	Admin
No pay raise for state employees*	\$ 15.0	-	One-Time	Admin
State Capital Projects Cutbacks	\$ 32.0	-	One-Time	Admin
Higher Education R&R Cutbacks	\$ 16.0	-	One-Time	Admin
<b>Subtotal</b>	<b>\$176.0</b>	<b>\$209.0</b>		
General Fund Cuts				
State Government Appropriations	-	\$109.0	Base Adj.	Admin
Medicaid Cuts from April 2001 Forecast	\$100.0	\$150.0	Base Adj.	Admin
Higher Education University Operating Appropriations	-	\$ 29.0	Base Adj.	Admin
TRF Cost of Living Appropriations	-	\$ 11.7	Base Adj.	Admin
<b>Subtotal</b>	<b>\$100.0</b>	<b>\$299.7</b>		
<b>Total</b>	<b>\$1,059.5</b>	<b>\$1,353.5</b>		

\*Portion or all of this item already implemented.

The following table presents the State's Balances and Reserves over the next two biennium, under the Governor's Balanced Budget Plan.

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**Table V-6**  
**Indiana's Projected Reserve Statement with the Governor's Balanced Budget Plan**

<b>Resources:</b>	<b>Actual FY 2001</b>	<b>Projected FY 2002</b>	<b>Projected FY 2003</b>	<b>Projected FY 2004</b>	<b>Projected FY 2005</b>
Working Balance at July 1	832.6	18.6	51.8	323.4	316.7
Current Year Resources					
Forecast Revenue	9,052.0	9,005.5	9,249.5	9,735.1	10,246.2
Revenue Enhancements	-	61.3	639.6	650.7	660.5
DSH	70.9	57.5	57.5	57.5	57.5
Transfer from Lottery & Gaming/Tobacco	-	250.0	265.0	190.0	190.0
Transfer from Medicaid Reserve	103.4	-	-	-	-
Transfer from Rainy Day Fund	46.3	165.0	90.0	-	-
Total Current Year Resources	9,272.6	9,539.3	10,301.6	10,633.3	11,154.2
<b>Total Resources</b>	<b>10,105.2</b>	<b>9,557.9</b>	<b>10,353.4</b>	<b>10,956.7</b>	<b>11,470.9</b>
<b>Uses:</b>					
Budgeted Appropriations	10,159.3	10,211.9	10,340.2	10,685.0	11,038.9
Adjustments	(35.3)	-	-	-	-
Medicaid Shortfall & Other Adjustments	58.5	-	(115.2)	-	-
Judgements and Settlements	7.0	8.0	8.0	8.0	8.0
<b>Total Appropriations &amp; Expenditures</b>	<b>10,189.5</b>	<b>10,219.9</b>	<b>10,233.0</b>	<b>10,693.0</b>	<b>11,046.9</b>
Payment Delays					
Higher Education Allotment	-	(94.4)	-	-	47.0
Tuition Support Distribution	-	(289.3)	-	-	145.0
Property Tax Replacement Credit	-	(154.1)	-	-	77.0
<b>Reversions</b>	<b>(102.9)</b>	<b>(176.0)</b>	<b>(203.0)</b>	<b>(53.0)</b>	<b>(25.0)</b>
<b>Total Net Uses</b>	<b>10,086.6</b>	<b>9,506.1</b>	<b>10,030.0</b>	<b>10,640.0</b>	<b>11,290.9</b>
<b>General Fund Balance at June 30</b>	<b>18.6</b>	<b>51.8</b>	<b>323.4</b>	<b>316.7</b>	<b>180.0</b>
Reserved Balances					
Medicaid Reserve	100.0	100.0	100.0	100.0	100.0
Tuition Reserve	265.0	265.0	265.0	265.0	265.0
Rainy Day Fund	526.0	382.0	307.3	319.6	332.4
<b>Total Combined Balances</b>	<b>909.6</b>	<b>798.8</b>	<b>995.7</b>	<b>1,001.3</b>	<b>877.4</b>
<b>% of Operating Revenues</b>	<b>9.8%</b>	<b>8.4%</b>	<b>9.7%</b>	<b>9.4%</b>	<b>7.9%</b>

If the legislature does not act, the Governor has the authority to balance the budget through administrative actions. The State Budget Agency has the ability to transfer appropriations from one account to another within an agency as long as the accounts do not have non-reversion language. The Budget Agency also has broad authority to control spending through the allotment process as long as the reduction is "necessary" to prevent a deficit financial situation. Pursuant to Section 35 of the 2001-2003 budget bill: "Subject to section 30 of this Act as it relates to the budget committee, the budget agency with the approval of the governor may withhold allotments of any or all appropriations as contained in this Act for the 2001-2003 biennium, if it is considered necessary to do so in order to prevent a deficit financial situation."

In addition, the State Budget Director can withhold funds obligated under executory contracts; each state contract contains a mandatory clause. In the event the State Budget Director makes a written determination that funds are not appropriated or otherwise available to support the continuation of performance of the Agreement by the State, the Agreement shall be canceled.

Finally, the State Board of Finance (comprised of the Governor, Treasurer, and Auditor) has the authority to transfer money between agencies. The Board has the authority to borrow money or funds for up to four years to meet "casual deficits" in state revenue, and can levy a property tax to payoff the loans if required. The Board also has a limited ability to transfer gaming or tobacco funds to the extent that the money is in non-reverting funds that are not trust funds.

## STATE INDEBTEDNESS

### Constitutional Limitations on State Debt

The State may not incur indebtedness under Article X, Section 5 of the State constitution, except in the following cases: to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See “FISCAL POLICIES—State Board of Finance.”

### Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, together with what are described below as “contingent obligations.” Such indebtedness and obligations are described in the following pages. In addition, various State universities and colleges have issued bonds, notes and other obligations, the debt service on which, though payable from student fees and other sources, is eligible for fee replacement appropriations by the General Assembly from State general purpose tax revenues. See “STATE BUDGET PROFILE—The State’s 2002-2003 Biennial Budget—Higher Education.” In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations not already authorized is subject to a number of conditions that cannot be predicted at present. See “STATE INDEBTEDNESS—Authorized but Unissued Debt.”

### Obligations Payable from Possible State Appropriations

The Indiana General Assembly has created certain financing entities, including the State Office Building Commission, the Transportation Finance Authority, the Recreational Development Commission and the Indiana Bond Bank which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Indiana Department of Administration, the Indiana Department of Transportation and the Indianapolis Airport Authority (under an agreement with the Indiana Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriation of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

***State Office Building Commission.*** The State Office Building Commission is authorized to issue revenue bonds to finance or refinance the acquiring, construction and equipping of buildings, structures, improvements or parking areas owned or leased by the State Office Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure or improvement for the care maintenance or treatment of persons with mental or addictive disorders; or (e) providing regional health facilities.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the State Office Building Commission has issued its revenue bonds to finance or refinance various facility projects, described below:

<u>Facility</u>	<u>Project Description</u>
Indiana Government Center Parking Facilities	Acquisition, constructing and equipping of two new multi-level parking facilities
Indiana Government Center South	Acquisition, constructing and equipping of new State office building facility
Indiana Government Center North	Renovation of and construction of improvements to original State office building facility
Wabash Valley Correctional Facility; Miami Correctional Facility, Phase I and II; Rockville Correctional Facility; and Pendleton Juvenile Correctional Facility	Acquisition, construction and equipping of men's maximum security correctional facility and medium security correctional facilities; acquisition, construction, renovation and equipping of women's correctional facility; and acquisition, construction and equipping of juvenile correctional facility

To see a listing by bond series of the outstanding indebtedness of the State Office Building Commission, see "Table VI-1 – Schedule of Long Term Debt Obligations Payable from Possible State Appropriations."

The State Office Building Commission's revenue bonds are payable, or upon completion of the construction of the facility (or portions thereof) will be payable, principally from rental payments on such facility (or portions thereof) to be made by the State Department of Administration pursuant to a use and occupancy agreement for such facility (or portions thereof). The term of each such use and occupancy agreement is coexistent with the State's biennial budget, but is renewable for additional two-year terms. Rental payments by the Department of Administration with respect to each such facility are and will be subject to and dependent upon appropriations being made for such purpose by the General Assembly.

The State Office Building Commission also provides short-term, or construction, financing for certain facilities through issuance and sale "Hoosier Notes." For a more detailed description of the Commission's Hoosier Notes program, see "STATE INDEBTEDNESS—Authorized but Unissued Debt."

***Transportation Finance Authority—Highway Financing.*** The Indiana Transportation Finance Authority (the "TFA") was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to: (a) undertake projects to construct, acquire, reconstruct, improve and extend the State's highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation, formerly the Indiana Department of Highways; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued its revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State's highways, bridges, streets and roads throughout Indiana. To see a listing by bond series of the indebtedness of the TFA for Highway Financing, see "Table VI-1—Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

The TFA's bonds are corporate obligations of the TFA and are payable, as to both principal and interest, solely from revenues derived from leases with the Department of Transportation, bond proceeds and investment earnings on bond proceeds. The TFA has no taxing power, and any indebtedness incurred by the TFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Debt service on the bonds is payable primarily from rental payments to be received from the Department of Transportation pursuant to certain master lease agreements between the TFA and the Department of Transportation, as supplemented. The term of each such master lease agreement is coextensive with the State's biennial budget, but is renewable for additional terms of two years, up to a maximum aggregate lease term of 25 years. Lease rentals under each such master lease agreement are payable solely from biennial appropriations for the



actual use or availability for use of projects financed by the TFA, with payment commencing no earlier than the commencement of such use or availability for use.

***Transportation Finance Authority - Aviation Financing.*** In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines “aviation related property or facilities” as those properties or facilities that are utilized by a lessee, or a lessee’s assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

**Airport Facilities.** Pursuant to this authority, the TFA issued its revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the “Airport Facilities”). At present, United Air Lines, Inc. is using the Airport Facilities as a major aircraft maintenance and overhaul facility. The TFA expects that United will continue to use the Airport Facilities for aircraft maintenance operations. To see a listing by bond series of the indebtedness of the TFA for Airport Facilities, see “Table VI-1—Schedule of Long Term Debt Obligations Payable From Possible State Appropriations.”

The TFA has acquired an undivided ownership interest as a tenant in common in a leasehold estate in the Airport Facilities and certain real property on which the Airport Facilities are situated, and the TFA has leased its undivided ownership interest therein to the Indianapolis Airport Authority pursuant to a lease agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the “Airport Facilities Lease”). The Airport Facilities Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA’s pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Airport Facilities Lease for the payment of the principal of and interest on the Airport Facilities Bonds. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Airport Facilities, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Airport Facilities Bonds are not an obligation, directly or indirectly, of United Air Lines, Inc.

**Aviation Technology Center.** Also pursuant to the authority granted the TFA for Aviation Financing, the Authority issued Aviation Technology Center Lease Revenue Bonds, Series A (the “Aviation Technology Center Bonds”) in December 1992. To see a listing of the indebtedness of the TFA for the Aviation Technology Center, see “Table VI-1—Schedule of Long Term Debt Obligations Payable From Possible State Appropriations.”

The proceeds from the Aviation Technology Center Bonds were applied to finance the costs of constructing and equipping a new aviation technology center (the “Aviation Technology Center”) at Indianapolis International Airport. Vincennes University is operating the Aviation Technology Center, and Vincennes University and Purdue University are currently conducting classes for training individuals for employment in aviation technology and other fields related to aircraft, aircraft maintenance and airport operations.

The TFA has acquired an interest in the Aviation Technology Center and certain real property on which the Aviation Technology Center is situated, and the TFA has leased its interest to the Indianapolis Airport Authority pursuant to a Lease Agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the “Aviation Technology Center Lease”). The Aviation Technology Center Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA’s pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Aviation Technology Center Lease. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Aviation Technology Center, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Aviation Technology Center Bonds do not constitute an indebtedness, liability or loan of the credit of the Indianapolis Airport Authority, the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the Indianapolis Airport

Authority, the State or any political subdivision thereof. The Aviation Technology Center Bonds are not an obligation, directly or indirectly, of Vincennes University.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see “STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing.”

***Recreational Development Commission.*** The Indiana Recreational Development Commission (the “Recreation Commission”) was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State Department of Natural Resources (the “DNR”) may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued its Park Revenue Bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State (the “Park Projects”). To see a listing by bond series of the indebtedness of the Recreation Commission for Park Projects, see “Table VI-1 – Schedule of Long Term Debt Obligations Payable From Possible State Appropriations.”

The Park Revenue Bonds are limited obligations of the Recreation Commission, payable solely from certain revenues and funds of the Recreation Commission pledged for such payment, including the net revenues from the Park Projects. These net revenues include primarily rental payments to be received by the Recreation Commission from the DNR for the DNR’s use of the Park Projects under a master use and occupancy agreement, as supplemented by a supplemental agreement for each of the Park Projects. The term of the master use and occupancy agreement is coextensive with the State’s biennial budget, but is renewable for additional two-year terms. Rental payments under the master use and occupancy agreement are subject to and dependent upon appropriations by the General Assembly having been made and being available for such purpose. The Park Revenue Bonds do not constitute a debt of the State or any political subdivision thereof or a pledge of the faith and credit of the State or any political subdivision thereof within the meaning of any constitutional provision or limitation.

***Indiana Bond Bank.*** The only bonds issued by the Indiana Bond Bank which are payable from possible State appropriations are the Series 1998B Refunding Bonds issued to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 B Bonds to finance construction of the State’s Animal Disease and Diagnostic Laboratory at Purdue University, West Lafayette. The essential security for the bonds is lease rentals payable under a lease between the State of Indiana, acting by and through the Department of Administration, as tenant, and The Trustees of Purdue University, as landlord. To see a listing by bond series of the appropriation-backed indebtedness of the Indiana Bond Bank, see “Table VI-1 – Schedule of Long Term Debt Obligations Payable From Possible State Appropriations.”

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see “STATE INDEBTEDNESS—Contingent Obligations—Indiana Bond Bank” and Table 10.

#### **Debt Statement - Obligations Payable From Possible State Appropriations**

Table VI-1 lists, by issuing agency, all long-term debt that is subject to possible State appropriations as of January 1, 2002.

**Table VI-1**  
**Schedule of Long Term Debt**  
**Obligations Payable From Possible State Appropriations**  
**(as of January 1, 2002)**

Issuer/Series	Original Par Amount	Ending Balance 01/01/01	(Redeemed)/ Issued	Ending Balance 01/01/02
<b>State Office Building Commission</b>				
Government Center Parking Facilities				
Series 1990A	\$ 26,669,824	\$ 10,475,690	\$ (671,077)	\$ 9,804,613
Series 1993A	42,410,000	33,335,000	(2,050,000)	31,285,000
Subtotal	\$ 69,079,824	\$ 43,810,690	\$ (2,721,077)	\$ 41,089,613
Government Center North				
Series 1990B	\$ 77,123,542	\$ 32,492,747	\$ (2,081,244)	\$ 30,411,503
Series 1993B	107,555,000	89,230,000	(4,145,000)	85,085,000
Subtotal	\$ 184,678,542	\$ 121,722,747	\$ (6,226,244)	\$ 115,496,503
Government Center South				
Series 1990C	\$ 18,063,800	\$ 7,089,520	\$ (453,430)	\$ 6,636,090
Series 1990D	110,675,000	53,710,000	0	53,710,000
Series 1993C	28,440,000	9,095,000	(420,000)	8,675,000
Series 2000B	43,400,000	43,400,000	(700,000)	42,700,000
Subtotal	\$ 200,578,800	\$ 113,294,520	\$ (1,573,430)	\$ 111,721,090
Correctional Facilities				
Series 1995A	\$ 54,025,000	\$ 52,790,000	\$ (455,000)	\$ 52,335,000
Series 1995B	47,975,000	45,475,000	(1,330,000)	44,145,000
Series 1998A	93,020,000	93,020,000	(2,450,000)	90,570,000
Series 1999A	96,785,000	94,020,000	(3,110,000)	90,910,000
Series 2000A	44,800,000	44,800,000	(1,600,000)	43,200,000
Series 2001A	66,600,000	0	66,600,000	66,600,000
Subtotal	\$ 403,205,000	\$ 330,105,000	\$ 57,655,000	\$ 387,760,000
<b>TOTAL SOBC</b>	<b>\$ 857,542,166</b>	<b>\$ 608,932,957</b>	<b>\$ 47,134,249</b>	<b>\$ 656,067,206</b>
<b>Transportation Finance Authority</b>				
Highway Revenue Bonds				
Series 1990A	\$ 72,498,391	\$ 38,011,897	\$ (1,904,265)	\$ 36,107,632
Series 1992A	74,035,000	37,615,000	(2,330,000)	35,285,000
Series 1993A	193,531,298	152,711,298	(6,595,000)	146,116,298
Series 1996B	27,110,000	26,200,000	(250,000)	25,950,000
Series 1998A	175,360,000	175,360,000	(3,110,000)	172,250,000
Series 2000A	269,535,000	269,535,000	0	269,535,000
Subtotal	\$ 812,069,689	\$ 699,433,195	\$ (14,189,265)	\$ 685,243,930
Airport Facilities Bonds				
Series 1992A	\$ 201,320,000	\$ 52,040,000	\$ (5,640,000)	\$ 46,400,000
Series 1995A	29,720,000	27,585,000	(880,000)	26,705,000
Series 1996A	137,790,000	137,790,000	(745,000)	137,045,000
Subtotal	\$ 368,830,000	\$ 217,415,000	\$ (7,265,000)	\$ 210,150,000
Aviation Technology Bonds				
Series 1992A	\$ 11,630,000	\$ 10,020,000	\$ (320,000)	\$ 9,700,000
Subtotal	\$ 11,630,000	\$ 10,020,000	\$ (320,000)	\$ 9,700,000
<b>TOTAL ITFA</b>	<b>\$ 1,192,529,689</b>	<b>\$ 926,868,195</b>	<b>\$ (21,774,265)</b>	<b>\$ 905,093,930</b>
<b>Recreational Development Commission</b>				
Series 1994	\$ 19,285,000	\$ 18,575,000	\$ (275,000)	\$ 18,300,000
Series 1997	6,600,000	5,995,000	(215,000)	5,780,000
Subtotal	\$ 25,885,000	\$ 24,570,000	\$ 490,000	\$ 24,080,000
<b>TOTAL IRDC</b>	<b>\$ 25,885,000</b>	<b>\$ 24,570,000</b>	<b>\$ (490,000)</b>	<b>\$ 24,080,000</b>
<b>Animal Disease &amp; Diagnostic Laboratory</b>				
Series 1998B	\$ 10,830,000	\$ 8,970,000	\$ (325,000)	\$ 8,645,000
<b>TOTAL ADDL</b>	<b>\$ 10,830,000</b>	<b>\$ 8,970,000</b>	<b>\$ (325,000)</b>	<b>\$ 8,645,000</b>
<b>TOTAL ALL BONDS</b>	<b>\$ 2,086,786,855</b>	<b>\$ 1,569,341,152</b>	<b>\$ 24,544,984</b>	<b>\$ 1,593,886,136</b>

Source: State Budget Agency

## Debt Service Schedule - Obligations Payable From Possible State Appropriations

Table VI-2 lists, all principal and interest payments payable from possible State appropriations (not including debt that has been defeased)

**Table VI-2**  
**Scheduled Principal and Interest Payments**  
**Payable From Possible State Appropriations**

Issuer/Series	FY 02	FY 03	FY 04	FY 05	Thereafter
<b>State Office Building</b>					
Government Center Parking					
Series 1990A	1,948,050	1,948,050	1,948,050	1,948,050	16,713,675
Series 1993A	3,691,946	3,689,389	3,689,981	3,683,284	30,502,183
Subtotal	5,639,996	5,637,439	5,638,031	5,631,334	47,215,858
<b>Government Center North</b>					
Series 1990B	6,041,880	6,041,880	6,041,880	6,041,880	51,841,680
Series 1993B	8,611,016	8,603,809	8,597,976	8,592,396	93,921,911
Subtotal	14,652,896	14,645,689	14,639,856	14,634,276	145,763,591
<b>Government Center South</b>					
Series 1990C	1,317,090	1,317,090	1,317,090	1,317,090	11,312,155
Series 1990D	3,705,990	3,705,990	3,705,990	3,705,990	69,252,595
Series 1993C	875,280	875,280	878,780	875,738	9,575,792
Series 2000B <sup>(1)</sup>	2,217,696	8,799,000	8,686,500	8,461,500	28,168,500
Subtotal	8,116,056	14,697,360	14,588,360	14,360,318	118,309,042
<b>Correctional Facilities</b>					
Series 1995A	3,326,769	3,320,028	3,321,861	3,322,248	86,586,863
Series 1995B	3,860,058	3,858,843	3,853,508	3,853,695	61,080,961
Series 1998A	6,903,551	8,574,151	8,572,990	8,560,298	102,146,062
Series 1999A	7,867,213	7,870,431	7,869,119	7,857,575	116,997,943
Series 2000A <sup>(1)</sup>	3,137,256	4,104,000	4,102,500	4,000,500	51,171,000
Series 2001A <sup>(1)</sup>	2,477,048	3,996,000	3,996,000	3,996,000	134,532,000
Subtotal	27,571,895	31,723,453	31,715,978	31,590,316	552,514,829
<b>TOTAL SOBC</b>	<b>55,980,843</b>	<b>66,703,941</b>	<b>66,582,225</b>	<b>66,216,244</b>	<b>863,803,320</b>
<b>Transportation Finance</b>					
<b>Highway Revenue Bonds</b>					
Series 1990A	6,150,288	6,150,288	6,150,288	6,150,288	50,200,773
Series 1992A	4,800,445	2,399,380	2,399,380	2,399,380	56,309,750
Series 1993A	13,845,448	13,853,698	13,848,263	13,858,773	202,992,686
Series 1996B	1,592,080	3,989,010	3,989,708	3,981,450	19,746,375
Series 1998A	12,111,765	12,098,890	12,108,846	12,088,328	232,873,214
Series 2000A	14,766,551	17,210,301	17,097,176	16,982,801	506,982,084
Subtotal	53,266,577	55,701,567	55,593,661	55,461,020	1,069,104,882
<b>Airport Facilities Bonds</b>					
Series 1992A	8,742,756	9,064,853	9,385,525	9,704,613	36,225,912
Series 1995A	2,376,240	2,420,893	2,469,868	2,512,723	33,073,276
Series 1996A	8,204,983	8,216,608	8,219,933	8,220,583	181,406,608
Subtotal	19,323,979	19,702,354	20,075,326	20,437,919	250,705,796
<b>Aviation Technology Bonds</b>					
Series 1992A	955,375	955,945	955,000	957,500	12,444,575
Subtotal	955,375	955,945	955,000	957,500	12,444,575
<b>TOTAL ITFA</b>	<b>73,545,931</b>	<b>76,359,866</b>	<b>76,623,987</b>	<b>76,856,439</b>	<b>1,332,255,253</b>
<b>Recreational Development Commission</b>					
Series 1994	1,380,070	1,419,395	1,460,203	1,492,435	26,725,326
Series 1997	526,043	526,030	525,333	523,869	7,263,365
Subtotal	1,906,113	1,945,425	1,985,536	2,016,304	33,988,691
<b>TOTAL IRDC</b>	<b>1,906,113</b>	<b>1,945,425</b>	<b>1,985,536</b>	<b>2,016,304</b>	<b>33,988,691</b>
<b>Animal Disease &amp; Diagnostic Laboratory</b>					
Series 1998B	1,040,638	1,042,894	1,043,475	1,042,434	6,779,669
<b>TOTAL ADDL</b>	<b>1,040,638</b>	<b>1,042,894</b>	<b>1,043,475</b>	<b>1,042,434</b>	<b>6,779,669</b>
<b>TOTAL BONDS</b>	<b>132,473,525</b>	<b>146,052,126</b>	<b>146,235,223</b>	<b>146,131,421</b>	<b>2,236,826,933</b>

(1) Debt service on variable rate debt is determined by actual rates through January 1, 2002 and the interest rate cap of 6% for remaining years.

Source: State Budget Agency

## Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. At \$261, the State's net tax-supported debt per capita ranks in the bottom quintile, approximately 42nd among the states. According to Moody's 2001 State Debt Medians, the median per capita debt for all the states was about \$541 and the mean was \$820. At 0.9%, Indiana has the lowest reported debt as a percent of personal income in the region and ranks approximately 45th among all the states. According to Moody's 2001 State Debt Medians, the median percentage for all the states was about 2.1% and the mean was about 3%. Even with the issuance of new debt authorized by the General Assembly, the State expects to retain its low ranking among the states for net tax-supported debt. Governor O'Bannon has directed the creation of a comprehensive debt management plan to help insure that debt will continue to be issued and managed in a prudent manner. The ratios of outstanding debt subject to possible state appropriation to population and personal income for the past eight years are reflected in the Table VI-3 shown below.

**Table VI-3**  
**Ratios of Outstanding Debt Subject to Possible Appropriation**  
**to Population and Personal Income**

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income<sup>(1)</sup></u>	<u>Outstanding Debt Subject to Appropriation</u>	<u>Debt/Capita</u>	<u>Debt/Income</u>
1993	5,700,243	\$112,701	\$ 1,001,051,854	\$175	0.9%
1994	5,741,540	119,665	1,030,787,646	179	0.9
1995	5,787,839	125,804	1,036,962,646	179	0.8
1996	5,828,090	131,906	1,119,537,646	192	0.8
1997	5,864,105	138,415	1,116,717,640	190	0.8
1998	5,907,617	141,650	1,240,092,643	210	0.9
1999	5,942,901	146,900	1,228,372,647	207	0.8
2000	6,080,485	164,238	1,540,241,136	253	1.0
2001	6,114,745 <sup>(2)</sup>	169,359 <sup>(3)</sup>	1,593,886,136	261	0.9

(1) Personal Income is expressed in millions of dollars.

(2) July 1, 2001 Census Estimate

(3) 2001, Second Quarter

(4) Debt outstanding on January 1, 2002

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income; and State Budget Agency for outstanding debt.

## Authorized but Unissued Debt

The 1997 General Assembly authorized the State Office Building Commission to issue additional bonds to finance: (1) a special needs facility to be converted from an existing State mental hospital near New Castle, Indiana (construction has commenced on the New Castle Correctional Facility and it is expected to be available for use and occupancy in Spring 2002); and (2) a new State Museum in Indianapolis. (Construction has commenced on the Museum. It is expected to be available for use and occupancy in the Summer of 2002.) The Commission is providing short-term, or construction, financing for these facilities through issuance and sale of "Hoosier Notes—a tax-exempt commercial paper program." Currently, the Commission is authorized to issue up to \$250 million in Hoosier Notes. As of January 25, 2002, \$213.0 million of Hoosier Notes were outstanding. The type, amount and timing of any additional bonds to refinance additional amounts of Hoosier Notes are subject to a number of conditions that cannot be predicted at present, including architectural and engineering work, the level of investment rates, conditions in the credit markets, costs and progress of construction and the financial condition of the State.

The 1999 General Assembly authorized the Commission to issue additional bonds to finance construction of a replacement mental health facility in Evansville, Indiana. The Commission is in the initial stages of construction of the Evansville facility and anticipates completion in the fourth quarter of 2002. The Commission is also providing short-term, or construction, financing for these facilities through issuance and sale of Hoosier Notes.

The 2001 General Assembly authorized the Commission to issue bonds to finance three (3) regional health centers. The Commission is in the initial stages of planning for such facilities and has not yet established a construction time line. An appropriation was made in the approximate amount of \$26,000,000 which is available to either make lease rental payments on such facilities when complete or to fund construction of such facilities.

In 1997, the General Assembly authorized the TFA to issue bonds to finance additional State highway construction projects through the Crossroads 2000 Program. The TFA has approximately \$300,000,000 in additional bonding capacity and expects to issue additional bonds in early 2003..

### **Contingent Obligations**

Certain State entities, including the Indiana Transportation Finance Authority, Indiana Bond Bank, and the Indiana Development Finance Authority, have issued obligations that, in certain circumstances, may include payment of State general funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

***Transportation Finance Authority - Toll Road Financing.*** The TFA and its predecessors have issued revenue bonds (“Toll Road Bonds”) to finance and refinance the construction and improvement of the 156-mile East-West toll road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. To see a listing by bond series of the indebtedness of the TFA for Toll Road Financing, see “STATE INDEBTEDNESS—Debt Statement—Contingent Obligations.”

The Indiana Department of Transportation has entered into a lease agreement for the Toll Road (the “Toll Road Lease”) with the TFA. The Toll Road Lease is automatically renewable every two years unless terminated by written notice of one party to the other not less than six months prior to the end of a term. The TFA may also terminate the Toll Road Lease at any time upon 15 days’ written notice if, in the judgment of the TFA, the Department of Transportation is not complying with the Toll Road Lease.

Pursuant to the Toll Road Lease, the operating budget of the Toll Road is controlled by the Department of Transportation, and the Department is obligated to make all necessary repairs, renewals, replacements and improvements to the Toll Road out of tolls and other revenues collected by the Department and deposited with the trustee under the Toll Road Lease. The Department is further obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by the Department are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, the Department of Transportation is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, the Department is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of, the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. To date, no request for an appropriation for payments or other requirements under the Toll Road Lease has been made. Under the Toll Road Lease, the Department is unconditionally obligated to pay the rent during each term from legally available funds, but is not obligated to pay rent for any subsequent term unless the Toll Road Lease is renewed and extended. The Department’s obligation to pay rent is not limited to Toll Road Lease revenues but, to the extent that the Department can legally obligate itself to do so, extends to other funds of, or obtainable by, the Department and legally available from time to time for expenditures in connection with the operation of the Toll Road. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or the Department.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see “STATE INDEBTEDNESS—Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing” and “Indiana Transportation Finance Authority-Aviation Financing.”

**Indiana Bond Bank.** The Indiana Bond Bank (the “Bond Bank”), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to political subdivisions of the State and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds issued by the Bond Bank.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to \$1.0 billion plus (a) up to \$200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to \$30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, the foregoing limitations do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

As of January 1, 2002, the Bond Bank had \$1,858,729,395 in bonds and notes outstanding, including \$189,425,000 in outstanding bonds that are eligible for reserve fund replacement, with an aggregate reserve fund requirement for such bonds of \$47,382,389. To see a listing by bond series of the outstanding Bond Bank bonds that are eligible for reserve fund replacement see “STATE INDEBTEDNESS—Debt Statement-Contingent Obligations.” As of January 1, 2002, all borrowers from the Bond Bank were current in their payments and no appropriation has been requested or required to maintain the debt service reserve funds at their required levels.

**Development Finance Authority.** The Indiana Development Finance Authority (the “Development Finance Authority”), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to: (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as described below, the Development Finance Authority’s revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority issued its Taxable Economic Development Bonds, Series 1995 (Steel Dynamics, Inc. Project) (the “Steel Dynamics Bonds”), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics Bonds. The Authority next issued its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) (the

“Qualitech Bonds”), secured in part by a debt service reserve fund established exclusively for the Qualitech Bonds. Finally, the Development Finance Authority issued its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) (the “Heartland Steel Bonds”) secured in part by a debt service reserve fund established exclusively for the Heartland Steel Bonds. To see a listing by bond series of the outstanding Development Finance Authority bonds that are eligible for reserve fund replacement see Table VI-4 “Schedule of Long Term Debt-Contingent Obligations” shown below.

On March 22, 1999, Qualitech Steel Corporation, the corporation whose revenues are the primary source of repayment for the Qualitech Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Qualitech Bonds remain current. On or about August 26, 1999, substantially all of Qualitech Steel Corporation’s assets were sold with court approval to designees of Qualitech’s pre-petition secured lenders. Presently the debt service reserve fund remains fully funded and the biennial budget bill includes sufficient funds to pay the Qualitech bond payments through the ‘01-’03 biennium. On or about January 31, 2001, Qualitech ceased operations and permanently laid off the majority of its employees.

On January 24, 2001, Heartland Steel Corporation, the corporation whose revenues are the primary source of repayment for the Heartland Steel Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The plant was sold in July 2001, and a plan was confirmed in 2001. The Heartland Steel Bonds remain current and the biennial budget bill provides \$1,000,000 in additional funding to supplement bond payments for the Heartland Steel Bonds. The new company is operating and currently employs approximately 180 people at the facility.

The Development Finance Authority has contractually agreed that, if, after an unreimbursed transfer from the debt service reserve fund for the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Steel Bonds, as applicable, such debt service reserve fund is not fully funded, the Development Finance Authority will seek an appropriation from the General Assembly to replenish such debt service reserve fund. However, the General Assembly is under no obligation to make any appropriation to replenish any such debt service reserve fund.

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## Debt Statement - Contingent Obligations

Table VI-4 lists the long term debt classified as contingent obligations that was outstanding on January 1, 2002. Debt classified as a contingent obligation is debt for which the State has agreed to replenish a debt service reserve fund or seek an appropriation from the General Assembly to provide funds to meet certain obligations. See "STATE INDEBTEDNESS—Contingent Obligations."

**Table VI-4**  
**Schedule of Long Term Debt**  
**Contingent Obligations**  
**(as of January 1, 2002)**

Issuer/Series	Original Par Amount	Ending Balance 1/01/01	(Redeemed)/ Issued	Ending Balance 1/01/02
<b>Transportation Finance Authority</b>				
Toll Road Bonds				
Series 1985	\$ 256,970,000	\$ 26,200,000	\$ -	\$ 26,200,000
Series 1987	184,745,000	46,295,000	(1,955,000)	44,340,000
Series 1993	76,075,000	47,770,000	(8,595,000)	39,175,000
Series 1996	134,795,000	132,710,000	(620,000)	132,090,000
<b>ITFA Total</b>	<b>\$ 652,585,000</b>	<b>\$ 252,975,000</b>	<b>\$ (11,170,000)</b>	<b>\$ 241,805,000</b>
<b>Indiana Bond Bank</b>				
Special Program Pool				
Series 1992A	\$ 21,000,000	\$ 16,045,000	\$ (805,000)	\$ 15,240,000
Series 1993A	7,975,000	6,705,000	(265,000)	6,440,000
Series 1993B	14,915,000	13,805,000	(750,000)	13,055,000
Series 1994B	8,475,000	7,170,000	(365,000)	6,805,000
Series 1995A	4,540,000	4,155,000	(315,000)	3,840,000
Series 1995B	13,280,000	12,080,000	(340,000)	11,740,000
Series 1997A	6,295,000	6,020,000	(110,000)	5,910,000
Series 1997B	22,855,000	22,855,000	(740,000)	22,115,000
Series 1997C	5,010,000	5,010,000	0	5,010,000
Series 1998A	6,485,000	6,485,000	(215,000)	6,270,000
Series 2000A	31,495,000	31,495,000	0	31,495,000
Series 2000A	32,860,000	27,860,000	(3,750,000)	24,110,000
Series 2001A (Refunding)	20,840,000	20,840,000	0	20,840,000
Series 2001A	7,055,000	0	7,055,000	7,055,000
Series 2001B	9,500,000	0	9,500,000	9,500,000
<b>IBB Total</b>	<b>\$ 212,580,000</b>	<b>\$ 180,525,000</b>	<b>\$ 8,900,000</b>	<b>\$ 189,425,000</b>
<b>Indiana Development Finance Authority</b>				
Qualitech Steel	\$ 33,100,000	\$ 28,700,000	\$ (1,200,000)	\$ 27,500,000
Steel Dynamics	21,400,000	17,600,000	0	17,600,000
Heartland Steel	13,800,000	12,300,000	(400,000)	11,900,000
<b>IDFA Total</b>	<b>\$ 68,300,000</b>	<b>\$ 58,600,000</b>	<b>\$ (1,600,000)</b>	<b>\$ 57,000,000</b>
<b>TOTAL – ALL BONDS</b>	<b>\$ 916,910,000</b>	<b>\$ 492,100,000</b>	<b>\$ (20,270,000)</b>	<b>\$ 471,830,000</b>

Source: State Budget Agency

## Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. The debts do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Statute</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantee for industrial development obligation or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 20-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority <sup>(1)</sup>	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority <sup>(2)</sup>	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to construct, maintain and operate public ports on Lake Michigan or Ohio or Wabash Rivers
Indiana Secondary Market for Secondary Loans, Inc. <sup>(3)</sup>	I.C. 20-12-21.2 Authorized 1980	Provide funds for a secondary market for education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in Marion County

<sup>(1)</sup> Originally the Indiana Hospital Equipment Financing Authority.

<sup>(2)</sup> Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

<sup>(3)</sup> A not-for-profit corporation authorized by the General Assembly.

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## VII. STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under Indiana law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable. See "Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2001—Employee Retirement Systems and Plans."

In 2000, the Indiana General Assembly restructured certain governance provisions for the Public Employees' Retirement Fund and the Teachers' Retirement Fund. Each Fund is now a separate body corporate politic. The legislation was designed to give the Funds the resources necessary to most efficiently and effectively implement investment strategies and administer benefits.

### **Public Employees' Retirement Fund**

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. With assets of more than \$8,559.1 million on June 30, 2000, PERF is the State's largest pension fund and has no unfunded liability. PERF has management responsibility for total assets of \$11,502.7 million, which includes pension assets of local government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On June 30, 2000, there were 204,286 active and retired members participating in PERF from State and local government.

State employees constitute approximately 36% of the non-retired PERF membership; the remainder of the membership is composed of employees of other participating political subdivisions. The State is financially responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF upon employment. The PERF benefit consists of two parts: (a) a pension formula benefit based upon years of service and final average salary and (b) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and pays the employee contributions for State employees to PERF as part of a wage adjustment.

Eligibility for retirement benefits is determined by age and creditable service. An employee is eligible for normal retirement at age 65 if he or she has ten or more years of creditable service under PERF. An employee may qualify for early retirement with a reduced pension if he or she is between the ages of 50 and 65 and has 15 or more years of creditable service. An employee may qualify for early retirement with full benefits at age 60 with 15 or more years of creditable service or at age 55 with the employee's age plus years of creditable service equaling 85 or more (the "Rule of 85"). Benefit determination is based on the average of the five highest annual earnings, years of service and age at retirement and the specific retirement option selected by each member.

PERF includes benefits for a member who becomes disabled while receiving pay in a PERF-covered position if the member (a) has five or more years of creditable service under PERF and (b) qualifies for Social Security disability benefits. The benefits will be computed using only the years of creditable service worked to the date of disability with no reduction for early retirement.

If a member who has 15 or more years of creditable service dies in service, his or her spouse or dependent beneficiary may be entitled to survivor benefits. If a retired member dies, the designated beneficiary may receive benefits, depending on the option selected by that member.

A member who terminates employment prior to eligibility for retirement or disability benefits is entitled to the return of his or her contributions, plus interest. A member who terminates employment prior to eligibility for retirement or disability benefits, but with ten or more years of credited service, may also elect to receive a deferred vested benefit instead of a refund.

Contributions are made to PERF by the State and local units, paying normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. For 1999, 2000, and 2001 the State contribution rate was set at 5%, the lowest rate in over 10 years.

**Table VII-1**  
**Public Employees' Retirement Fund**  
**History of Contribution Rates**

<u>Valuation Date</u>	<u>State Contribution Rate</u>
July 1, 2001	5.0%
July 1, 2000	5.0%
July 1, 1999	5.0%
July 1, 1998	5.7%
July 1, 1997	6.6%
July 1, 1996*	6.6%
July 1, 1995*	6.3%
July 1, 1994	5.6%
July 1, 1993	6.2%
June 30, 1992	6.6%
June 30, 1991	7.0%
June 30, 1990	7.3%
June 30, 1989	7.8%

\*These contribution rates reflect the normal retirement date as changed by statute to the "Rule of 85" and reflect changes in actuarial assumptions.

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Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

As of July 1, 2000, the State-related portion of the PERF plan was actually overfunded by \$258.9 million. As of June 30, 2000, the funds assets under PERF's control were allocated approximately 60% to equities and 40% to fixed income. The better-than-expected funded status of the plan can be attributed to greater than expected investment gains. The plan has achieved this overfunded status even though it incorporates conservative actuarial assumptions into the valuation process.

**Table VII-2**  
**PERF Actuarial Assumptions**

- 7.25% Investment Return
- 5% Salary Increases
- 2% Retiree Cost-of-Living Benefit Increases
- 1983 GAM Mortality Tables
- Retirement rates based on PERF Experience Study 1991-1994
- Disability rates based on PERF Experience Study 1991-1994
- Turnover by age and service based on PERF Experience Study 1991-1994

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Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

Table VII-3 summarizes the results of the actuarial valuations of the State-related portion of PERF on June 30, 1999 and June 30, 2000.

**Table VII-3**  
**Indiana State Public Employees' Retirement Fund**

	<u>June 30, 1999</u>	<u>June 30, 2000</u>
Normal Cost	\$ 73,931,188	\$ 80,217,996
Accrued Liability (Non-retired) <sup>(1)</sup>	1,583,485,563	1,701,091,436
Unfunded (Overfunded) Accrued Liability (Non-retired) <sup>(1)</sup>	(245,098,880)	(258,926,582)
Actuarial Present Value of All Present Value of Vested Benefits	760,263,989	831,616,226
Non-retired Participant Assets <sup>(2)</sup>	1,828,584,443	1,960,018,018

Notes: <sup>(1)</sup> There is no Unfunded Accrued Liability for retired members' benefits.

<sup>(2)</sup> Actuarial Value.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, June 30, 2000.

### State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") pays retirement benefits to public school teachers who reach a specific age or meet other eligibility qualifications. On June 30, 2000, TRF had 110,748 active and retired participants. Members of TRF receive benefits similar to those received by PERF members as described above and are also subject to the "Rule of 85" for eligibility purposes.

Moneys to pay retirement benefits were provided from State appropriations and separate contributions by the teachers to an Annuity Savings Account. Until July 1, 1995, the State portion of benefits was funded on a "pay as you go" cash basis. As a result, there accumulated a substantial unfunded accrued liability in the "old plan" as shown in Table 14 below.

**Table VII-4**  
**Indiana State Teachers' Retirement Fund**

	<u>June 30, 1999</u>	
Accrued Liability	<u>Old Plan</u>	<u>New Plan*</u>
Retired	\$ 3,659,118,423	\$ 3,903,234
Non-retired	<u>8,513,383,027</u>	<u>494,519,759</u>
Total	12,172,501,450	498,422,993
Unfunded Accrued Liability		
Retired	\$ 1,428,041,751	\$ -
Non-retired	<u>6,013,793,279</u>	<u>258,369,079</u>
Total	\$ 7,441,835,030	\$ 258,369,079 **
	<u>June 30, 2000</u>	
Accrued Liability	<u>Old Plan</u>	<u>New Plan*</u>
Retired	\$ 3,890,895,561	\$ 8,679,114
Non-retired	<u>8,518,379,657</u>	<u>697,111,111</u>
Total	12,409,275,218	705,790,225
Unfunded Accrued Liability		
Retired	\$ 1,380,424,751	\$ -
Non-retired	<u>5,818,961,181</u>	<u>337,632,726</u>
Total	\$ 7,199,385,932	\$ 337,632,726 **

\* The new plan is actuarially funded by local school districts.

\*\* Total Unfunded Accrued Liability of the new plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Pre-1995 Plan.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 1999 and June 30, 2000.

To aggressively address TRF's unfunded liability, the State and TRF Board have taken the following actions:

1. The State capped its Pension Benefit Obligation by shifting the obligation for all teachers hired after 1995 to local school districts and implementing a level percent of payroll current funding approach ("New Plan")
2. The New Plan is also responsible for the total cost of teachers transferring to another school district after 1995. As of June 30, 2000, this resulted in a shift of \$337 million in liability from the Old Plan to the New Plan.
3. The TRF Board addressed the unfunded liability in the New Plan by increasing the required payroll contribution rate to the 9.0% rate recommended by the fund's actuaries.
4. The State created the Pension Stabilization Fund which will be used to supplement future General Fund appropriations for TRF liability. As of September 30, 2001 the Pension Stabilization Fund totaled over \$1.8 billion. The Pension Stabilization Fund reduces the future fiscal burden for the State and has been funded by:
  - An initial transfer of \$439.7 million in Fiscal 1996;
  - Permanent annual appropriations of \$25 million from the State General Fund and \$30 million from Lottery revenues since Fiscal 1996;
  - Additional appropriations of \$500 million during Fiscal Years 1997-2001;
  - One-time transfer of \$148.5 million in interest income in Fiscal 1999.
5. The State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets. As of June 30, 2000, 46% of the Fund's employer controlled assets were invested in equities. The independent, non-partisan, Indiana Fiscal Policy Institute, estimated that investing in equities had resulted in an additional \$648 million in earnings to the Plan as of December 31, 1999.

The substantial changes to the old and new plans were designed to limit the growth in the annual State General Fund appropriation necessary to meet current obligations of such plans. An independent analysis of the plans done in December 1999 by The Indiana Fiscal Policy Institute, reports that the growth rate for future General Fund appropriations has been reduced from a projected growth rate of 9% per year to 3.1% per year following the restructuring. The financial condition of the Old Plan has improved steadily, with a 65% funded ratio as of June 30, 2000, up from 46% in 1997. The Unfunded Accrued Liability in the Old Plan actually declined in Fiscal 2000 by over \$240 million, as illustrated in the following table.

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**Table VII-5**  
**Growth of Unfunded Liability in Teachers' Retirement Fund Closed, Pre-1995**  
**Plan**

June 30	Computed Actuarial Accrued Liability	Valuation Assets (\$ in Millions)	Unfunded Actuarial Accrued Liability (UAAL)	% Change from Previous Year*
1975	\$1.570	\$ 312	\$1.258	
1977	2.145	375	1.770	20.3%
1979	2.582	466	2.116	9.8%
1980	2.843	539	2.304	8.9%
1981	2.957	601	2.356	2.3%
1983	3.338	765	2.573	4.6%
1985	4.023	1,073	2.950	7.3%
1987	4.837	1,401	3.436	8.2%
1989	6.205	1,707	4.498	15.5%
1991	7.182	2,161	5.021	5.8%
1992	7.949	2,376	5.573	11.0%
1993	8.508	2,592	5.916	6.2%
1994	9.087	2,809	6.279	6.1%
1995	9.675	2,984	6.691	6.6%
1996	10.283	3,242	7.041	5.2%
1997	10.868	3,678	7.190	2.1%
1998	11.481	4,130	7.351	2.2%
1999	12.173	4,731	7.442	1.2%
2000	12.409	5,210	7.199	(3.3%)

\* Where a valuation year is skipped, the percentage change is divided by two to approximate the change over a two-year period.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

The actuaries acknowledge that the assumptions used to calculate the unfunded liability are more conservative than many public pension plans. Because the liability is calculated using these various assumptions, any changes to those assumptions could substantially impact the amount of the unfunded liability

**Table VII-6**  
**TRF Actuarial Assumptions**

- 7.5% Investment Return
- 5.5% Salary Increases plus an additional Merit and/or Seniority increase ranging from 1.5% to 3% for those members with 5 to 40 years of service.
- 1983 GAM Mortality Tables
- Retirement rates based on TRF Experience Study 1991-1996\*
- Disability rates based on TRF Experience Study 1991-1996\*
- Turnover by age and service based on TRF Experience Study 1991-1996\*

\*A new TRF Experience Study must be completed every 5 years and is due to be completed in 2002.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

### **Indiana Judges' Retirement System**

The Indiana Judges' Retirement System ("JRS") consists of two benefit plans that pay pensions, disability benefits and survivor benefits to judges. Benefits under each plan include retirement, disability and survivor provisions, all of which are tied to salaries and years of service.

Moneys to pay benefits are derived primarily from an appropriation from the State's General Fund, from court fees and from contributions by the judges equal to 6.0% of their salaries. JRS has historically not been funded by the State on an actuarial basis.

Table VII-7 summarizes the results of the actuarial valuation of JRS on July 1, 1999, and July 1, 2000.

**Table VII-7**  
**Indiana Judges' Retirement System**

	<u>July 1, 1999</u>	<u>July 1, 2000</u>
Normal Cost <sup>(1)</sup>	\$ 4,894,302	\$ 4,627,745
Accrued Liability	176,301,145	182,447,802
Unfunded Accrued Liability	85,228,571	78,715,197
Valuation Assets <sup>(2)</sup>	\$ 91,072,574	\$ 103,732,605
Number of Members		
Active and Inactive	341	336
Terminated and Vested	18	17
Retired	221	228
Total	580	581

- (1) Although normal cost is calculated by the actuaries, JRS is not funded on an actuarial basis. This amount represents the gross normal cost. Anticipated employee contributions of approximately \$1.9 million in 1999 and \$1.8 million in 2000 leave net employer normal cost of approximately \$4.6 million in 2000.

- (2) Actuarial Value.

Source: Actuarial Valuation, State of Indiana Judges' Retirement System, July 1, 1999 and 2000.

### **State Police Pension Trust**

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount.

The State Police Pension Trust is funded on an actuarial basis. The State Treasurer is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2001.

### **Other State Plans**

The State appropriates moneys to several other retirement plans.

The State maintains an Excise Police and Conservation Enforcement Officers' Retirement Plan. According to the actuarial valuation of the plan, as of July 1, 2000, the plan had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of \$1,717,593 and an unfunded actuarial liability of \$11,903,897.

The PERF Board of Trustees administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

The PERF Board of Trustees also administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members'



contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue and certain surplus Hoosier Lottery and gaming revenues. In addition to those funding sources, the State authorized additional appropriations of \$50.0 million during 1996 and \$25.0 million each year of the 1997-1999 biennial budget. In 1999, the State dedicated another \$20 million per year from the lottery proceeds (beyond the existing \$10 million per year) to the pension relief fund. For the 2000 Calendar Year, \$76.652 million was expended from the State's pension relief fund, and on December 31, 1999, the State's pension relief fund had a balance of \$498.811million.

In 1989, the General Assembly established a legislators' retirement system consisting of a defined benefit plan and a defined contribution plan. Each of the plans is to be administered by the PERF Board. According to the actuarial valuation of the legislators' defined benefit plan, as of July 1, 2000, the plan had a total annual cost of \$177,559, a cost per eligible active participant of \$1,492 and an unfunded actuarial liability of \$896,370.

The 1989 General Assembly also established a prosecuting attorneys' retirement fund, which is administered by the PERF Board. According to the actuarial valuation of the prosecuting attorneys' retirement fund, as of July 1, 2000, the fund had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of \$375,145 and an unfunded actuarial liability of \$4,161,682.

### **Local Plans**

Approximately 200 additional local governmental pension funds in the State do not receive direct contributions from the State. Although the State has set certain standards for some local pension funds, localities and members are solely responsible for contributions to the funds.

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## VIII. ECONOMIC AND DEMOGRAPHIC INFORMATION

### General

Over the last decade, Indiana's economy has grown in size and diversity. With an estimated 1999 Gross State Product of more than \$182.2 billion, Indiana's economy ranks as the 15<sup>th</sup> largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown faster than the nation during the 1990's, with a Gross State Product growth rate of 64.5% compared to 63.1% for the U.S. From 1990 to 1999, Indiana's contribution to the national Gross Domestic Product increased by \$71.4 billion, rising from 1.9% to 2.0% of total output. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel.

In 2000, Indiana's 2-year average for median household income was \$41,011, 97% of the U.S. average, up from 90% in 1990. Indiana has averaged 1.5% annual growth in median income versus 0.9% for the U.S. over the last decade. Indiana's per capita income was \$27,011 or 91% of the U.S. average in 2000.

Over the last year, Indiana has lost just over 50,000 jobs, reflecting a 1.7% decline in employment, versus a 0.8% decline for the U.S. However, Indiana's unemployment rate has remained below the U.S. average, ending the year at 5.0% versus 5.8% for the U.S. Over the decade, Indiana's unemployment rate has remained well below the national average, ranging from 69% to 88% of the U.S. average.

From 1991 to 2001, Indiana has witnessed a significant shift in the distribution of employment between sectors. Employment in the service sector increased by 40%, followed by a 35% gain in construction and a 18% increase in wholesale and retail trade. During this period, the number of manufacturing jobs also increased by 3%. However, manufacturing jobs declined from a 24.7% share of total non-farm employment to a 21.7% share. The service sector increased from 21.5% to 25.7%, and is now the largest single sector of employment in Indiana. The diversity of the workforce is reflected in the fact that Indiana's top five employment sectors comprise just 27% of the workforce, with health services being the largest segment of private employment.

Indiana is the 15<sup>th</sup> largest exporting state in the nation. Since 1990, exports in Indiana have outperformed the nation, increasing by 160%, compared to 99% for the nation as a whole. In 2000, Indiana experienced export growth in excess of 18% while exports for the United States increased by about 13%. A large increase in exports to Mexico and a return of exports to Asian markets contributed to Indiana's 2000 export increase. In 2000, Indiana experienced another record-breaking year with the State's exports reaching an all time high of \$16.5 billion.

Indiana benefits from proximity to major markets and population centers — both national and international. Through Indiana's three ports, businesses can access markets and population centers in the north, through Lake Michigan and the Great Lakes-St. Lawrence Seaway; and to the south, through the Ohio and Mississippi rivers. With 11,300 miles of State highways and 1,171 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. Indiana is within a day's drive of two-thirds of the population of the United States.

The cost of living in Indiana is relatively low. The cost of living index for all of Indiana's major cities has consistently been below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial customers while residential energy bills were 17.2% lower than the national average.

<b>Table VIII-1</b> <b>Summary Comparison: Indiana and the U.S.</b>							
	<i>1950</i>	<i>1960</i>	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>2000</i>	<i>2001</i>
<b>Population</b> <sup>(1)</sup>							
Indiana	3,934	4,662	5,195	5,490	5,544	6,080	6,115
% Change		18.5%	11.4%	5.7%	1.0%	9.7%	0.6%
U.S.	151,326	179,323	203,302	226,546	248,710	281,422	284,797
% Change		18.5%	13.4%	11.4%	9.8%	13.2%	1.2%
<b>Employment</b> <sup>(2)</sup>							
Indiana	1,272	1,431	1,849	2,130	2,522	3,009	2,959
% Change		12.5%	29.2%	15.2%	18.4%	19.3%	-1.7%
U.S.	45,197	54,189	70,880	90,406	109,419	132,367	131,297
% Change		19.9%	30.8%	27.5%	21.0%	21.0%	-0.8%
<b>Personal Income</b> <sup>(3)</sup>							
Indiana	\$1,510	\$2,209	\$3,810	\$9,449	\$17,625	\$27,011	
% Change		46.3%	72.5%	148.0%	86.5%	53.3%	
U.S.	\$1,492	\$2,276	\$4,095	\$10,183	\$19,584	\$29,676	
% Change		52.5%	79.9%	148.7%	92.3%	51.5%	

(1) In thousands. Except for 2001, reflects the results of the census as of April 1 of each year.

(2) In thousands. Nonfarm payroll employment only. See Table VIII-10.

(3) Growth measured by current dollars per capita. See Table VIII-7.

Source: U. S. Census Bureau ; U.S. Department of Labor, Bureau of Labor Statistics and Bureau of Economic Analysis,

## Population

Indiana is the 14th most populous state in the United States. After leveling off in the 1980's, the pace of Indiana's population growth increased by 9.7% from 1990 to 2000, significantly faster than all other mid-western states. Indiana's population increased not only in relative terms, but its population increase of 536,326 persons during the 90's was the 18<sup>th</sup> largest population increase in absolute terms. According to the July 1, 2001 estimate from the U.S. Census Bureau, Indiana's population is currently over 6.1 million people, a 0.6% increase from Census 2000. Except for Wisconsin, Indiana's rate of growth again outpaced all other mid-western states over the year.

Throughout the decade, Indiana has benefited from net in-migration; meaning, more people are entering the State than leaving it, reversing an out-migration trend that occurred in the 1980s. Of Indiana's neighboring states, only Kentucky has posted net positive population migration in each of the years 1991 through 1999.

<b>Table VIII-2</b>					
<b>Net Population Migration (In thousands)</b>					
Year	Indiana	Illinois	Michigan	Ohio	Kentucky
1991	11	-28	1	-4	3
1992	12	-7	9	7	19
1993	19	-12	-2	-2	24
1994	12	-18	2	-13	16
1995	16	-24	22	-13	16
1996	10	-26	27	-17	11
1997	6	-25	-6	-23	11
1998	4	-23	-13	-30	10
1999	4	-18	-3	-26	10
1990-99	111	-175	-99	-113	113

Source: U.S. Census Bureau. 1990-1999 total based on revised figures released in 2000.

The capital and largest city in the state is Indianapolis. Other major cities include Fort Wayne, Evansville, Gary and South Bend. Indiana has all or portions of 12 metropolitan statistical areas (“MSA”) and one primary MSA situated within its borders. From 1990 to 2000, population growth within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest, surpassing the nation’s growth. All but two of Indiana’s other metropolitan areas showed increases in population for the decade, with the Elkhart-Goshen area leading the way at 17%, while the Muncie region’s population decreased .07%.

<b>Table VIII-3</b>							
<b>Population of Indiana Cities and MSAs</b>							
Cities				Metropolitan Statistical Areas			
City	1990 Census	2000 Census	% Change	MSA	1990 Census	2000 Census	% Change
Indianapolis	741,952	791,926	6.7%	Indianapolis MSA <sup>(1)</sup>	1,380,491	1,607,486	16.4%
Fort Wayne	173,072	205,727	18.9%	Fort Wayne MSA <sup>(2)</sup>	456,281	502,141	10.1%
Evansville	126,272	121,582	-3.7%	Evansville-Henderson MSA <sup>(3)</sup>	156,198	182,791	17.0%
Gary	116,646	102,746	-7.6%	Gary Primary MSA <sup>(4)</sup>	604,526	631,362	4.4%
South Bend	105,511	107,789	-2.6%	South Bend MSA <sup>(5)</sup>	247,052	265,559	7.5%

<sup>(1)</sup> Marion, Boone, Hamilton, Madison (including the City of Anderson), Hendricks, Hancock, Morgan, Johnson and Shelby counties. The Indianapolis MSA is adjacent to the Lafayette (including Purdue University), Kokomo, Muncie (including Ball State University) and Bloomington (including Indiana University) MSAs.

<sup>(2)</sup> Allen, DeKalb, Whitley, Huntington, Wells and Adams counties.

<sup>(3)</sup> Posey, Vanderburgh (including University of Southern Indiana) and Warrick counties, Indiana, and Henderson County, Kentucky.

<sup>(4)</sup> Lake and Porter counties, Indiana; part of the Chicago-Gary-Kenosha, Illinois-Indiana-Wisconsin CMSA.

<sup>(5)</sup> St. Joseph County, Indiana (including University of Notre Dame); adjacent to Elkhart-Goshen MSA, Elkhart County, Indiana.

Source: U.S. Census Bureau.

As reflected in Table VIII-4, the State’s demographic profile closely matches the nation. Changes in the Indiana demographic profile since 1990 also match national trends, including a decline in the portion of the population between eighteen and twenty-four and an increase in the portion of the “aging baby boomer” (age 45-64) population. Interestingly, Indiana has seen a nominal decrease in the size of its “senior citizen” population. Unlike

the nation, Indiana's median age has become younger as a greater proportion of young people are added to the population.

<b>Table VIII-4 Demographic Profile</b>				
Age (Years)	Indiana		United States	
	1990	2000	1990	2000
Under 5	7.2%	7.0%	7.6%	6.8%
5-17	18.7%	18.9%	18.2%	18.9%
18-24	11.0%	10.2%	10.8%	9.7%
25-44	31.5%	29.4%	32.4%	30.2%
45-64	19.1%	22.0%	18.6%	22.0%
65 and older	12.6%	12.4%	12.5%	12.4%
Median Age	35.4 years	35.2 years	32.8 years	35.3 years

Source: U.S. Census Bureau

### Gross State Product

With an estimated 1999 Gross State Product of more than \$182.2 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown at a faster pace than the nation during the 1990's, increasing its weight as a percent of the national economy from 1.9% in 1990 to 2.0% in 1999.

<b>Table VIII-5 Total Gross State and Domestic Product</b>					
	In Millions of Current Dollars			Growth Rate	
	1980	1990	1999	1980 to 1990	1990 to 1999
Indiana	58,379	110,788	182,202	89.8%	64.5%
U.S.	2,731,618	5,706,658	9,308,983	108.9%	63.1%
Indiana as %of U.S. GDP	2.1%	1.9%	2.0%		

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The State's economy is increasingly diversified, having undergone a shift in composition over time. Since 1980, agriculture has declined in importance to the Indiana economy, accounting for 1% of the State's economic production in 1999, same as the national average. Conversely, the service sector has grown significantly, increasing from 14.8% to 16.6% of total state output. Manufacturing has increased its share of Gross State Product very slightly, but at 30.9% still remains the largest component of the economy.

Table VIII-6								
Gross State Product (GSP) and Gross Domestic Product (GDP) in Current Dollars								
	1990		1999		Growth Rate 1990-1999	1999		Indiana as a % of U.S
Sector	Indiana GSP (millions)	% of Total	Indiana GSP (millions)	% of Total		U.S. GDP (million)	% of Total	
Agriculture	2,476	2.2%	1,820	1.0%	-26%	125,441	1.3%	1.5%
Mining	640	0.6%	761	0.4%	19%	111,797	1.2%	0.7%
Construction	5,074	4.6%	9,235	5.1%	82%	416,354	4.5%	2.2%
Manufacturing	33,665	30.3%	56,294	30.9%	67%	1,500,806	16.1%	3.8%
Transportation & Utilities	10,111	9.1%	13,845	7.6%	37%	779,647	8.4%	1.8%
Wholesale Trade	6,452	5.8%	11,157	6.1%	73%	643,284	6.9%	1.7%
Retail Trade	10,238	9.2%	16,853	9.2%	65%	856,364	9.2%	2.0%
F.I.R.E	13,691	12.3%	23,744	13.0%	73%	1,792,090	19.3%	1.3%
Services	16,416	14.8%	30,219	16.6%	84%	1,986,918	21.3%	1.5%
Government	12,228	11.0%	18,273	10.0%	49%	1,096,282	11.8%	1.7%
Summed Total	110,991		182,273		64%	9,308,983		2.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Totals may not add due to rounding.

### Income

**Personal Income.** In 2000, Indiana's per capita personal income reached \$27,011, increasing 3.3% over 1999. Over the past ten years, Indiana's personal income has grown at an average annual rate of 3.96%, exceeding the national average rate of 3.85%.

Table VIII-7				
Growth in Per Capita Personal Income				
Year	Indiana	U.S.	Indiana	U.S.
1990	\$ 17,625	\$ 19,584		
1991	18,055	20,089	2.4%	2.6%
1992	19,629	21,082	8.7%	4.9%
1993	20,112	21,718	2.5%	3.0%
1994	21,153	22,581	5.2%	4.0%
1995	21,845	23,562	3.3%	4.3%
1996	22,775	24,651	4.3%	4.6%
1997	23,748	25,874	4.3%	5.0%
1998	25,182	27,322	6.0%	5.6%
1999	26,143	28,542	3.8%	4.5%
2000	27,011	29,676	3.3%	4.0%
Annual Average Growth			3.96%	3.85%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**Household Income.** From 1990 to 2000 Indiana's median household income has grown faster than the U.S., averaging an annual growth rate of 1.5% versus 0.8% for the U.S. In 2000, median income was \$41,011 or 97% of the U.S. average, up from 90% in 1990. Indiana is clearly a middle-income state, with 70% of Indiana families earning incomes in the three middle quintiles, versus 60% for the U.S. Household income reflects, in addition to personal income, other sources of wealth such as social security, disability benefits, pensions, interest, dividend, trust, and rent. Household income may also reflect multiple wage earners contributing to family income.

<b>Table VIII-8</b> <b>Growth in Median Household Income</b> <b>2-yr average</b>				
Year	Indiana	U.S.	Indiana	U.S.
1990	\$ 34,749	\$ 38,713		
1991	34,064	37,880	-2.0%	-2.2%
1992	33,988	37,140	-0.2%	-2.0%
1993	34,547	36,856	1.6%	-0.8%
1994	33,367	36,941	-3.4%	0.2%
1995	34,776	37,699	4.2%	2.1%
1996	37,954	38,530	9.1%	2.2%
1997	40,016	39,196	5.4%	1.7%
1998	41,767	40,313	4.4%	2.8%
1999	42,114	41,610	0.8%	3.2%
2000	41,011	42,168	-2.6%	1.3%
Annual Average Growth			1.52%	0.78%

Source: U.S. Census Bureau: *Current Population Survey*.

**Poverty.** Indiana has the thirteenth lowest poverty rate in the nation, with only 8.4% of the state living below the poverty level in 2000. This represents a significant change from 1990 when 13% of Indiana residents lived in poverty, and well below the national rate of 11.3%.

<b>Table VIII-9</b> <b>Poverty Rates for IN and the US</b>		
Year	Indiana	U.S.
1990	13.0%	13.5%
1991	15.7%	14.2%
1992	11.8%	14.8%
1993	12.2%	15.1%
1994	13.7%	14.5%
1995	9.6%	13.8%
1996	7.5%	13.7%
1997	8.8%	13.3%
1998	9.4%	12.7%
1999	6.7%	11.8%
2000	8.4%	11.3%
Rank	13th lowest of all States	

Source: U.S. Census Bureau: *Current Population Survey*.

## Employment

During this past decade, employment in Indiana has shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. The service sector is now the largest sector of employment at 25.7% of total employment, followed by trade at 23.7% and manufacturing at 21.7%. As a result of the current recession, Indiana has lost 50,400 jobs since 2000, with a majority of the job losses occurring in the manufacturing sector, representing a 1.7% decline over 2000 versus a 0.8 decline for the U.S. Although, manufacturing employment peaked in 1999, the number of manufacturing jobs has grown by 188,000 jobs or 3.0% since 1991.

<b>Table VIII-10</b> <b>Year-Ending Non-Farm Employment</b> <b>(seasonally adjusted)</b>					
	Total Employment		% Change		Net New Jobs
Year	Indiana	U.S.	Indiana	U.S.	Indiana
1991	2,519,600	108,121,000			
1992	2,580,900	109,266,000	2.4%	1.1%	61,300
1993	2,670,000	112,034,000	3.5%	2.5%	89,100
1994	2,758,500	115,918,000	3.3%	3.5%	88,500
1995	2,802,000	118,118,000	1.6%	1.9%	43,500
1996	2,834,300	120,916,000	1.2%	2.4%	32,300
1997	2,877,200	124,271,000	1.5%	2.8%	42,900
1998	2,946,700	127,286,000	2.4%	2.4%	69,500
1999	2,999,400	130,365,000	1.8%	2.4%	52,700
2000	3,008,900	132,367,000	0.3%	1.5%	9,500
2001	2,958,500	131,297,000	-1.7%	-0.8%	-50,400
Average Annual Growth Rate			1.5%	1.8%	
Total Growth			17.4%	21.4%	438,900

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

<b>Table VIII-11</b> <b>Year-ending Non-Farm Employment By Sector</b> <b>(seasonally adjusted in thousands)</b>					
Sector	1991	% of Total	2001	% of Total	Growth 1991-2001
Mining	7,300	0.3%	6,000	0.2%	-17.8%
Construction	111,700	4.4%	151,000	5.1%	35.2%
Manufacturing	622,400	24.7%	641,200	21.7%	3.0%
Trade	594,400	23.6%	699,800	23.7%	17.7%
Finance, Insurance, Real Estate	126,200	5.0%	140,300	4.7%	11.2%
Transportation & Public Utilities	130,200	5.2%	143,900	4.9%	10.5%
Services	542,000	21.5%	761,100	25.7%	40.4%
Government	385,400	15.3%	415,200	14.0%	7.7%
Total Non-farm Employment	2,519,600	100.0%	2,958,500	100.0%	17.4%

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

### Unemployment

Indiana has consistently maintained lower annual unemployment rates than the nation since 1990, despite several changes in the business cycle over the last decade. Although unemployment rates started rising in Indiana in 2000, they still remain well below the national average. Indiana ended 2001 with a 5% unemployment rate, 86.2% of the U.S. rate of 5.8%.



<b>Table VIII-14</b> <b>Unemployment Rate</b> (annual averages of monthly data)			
Year	Indiana	U.S.	Indiana as % of U.S.
1990	5.3	5.6	94.6
1991	6.0	6.8	88.2
1992	6.6	7.5	88.0
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.6	5.6	82.1
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0

Source: U.S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

### Industry Diversity

Over the course of the past decade, investment and expansion in certain high-wage industrial sectors have occurred in Indiana, while declining elsewhere. Many industry analysts and economists often refer to Indiana's economy as one that is over reliant on one or two industrial sectors. However, it should be noted that Indiana's large industrial sector is not characterized by one or two predominant industries, but is notable for its industrial diversity. Although autos (92,500 jobs) and steel (59,400 jobs) have a major presence in Indiana, these sectors only account for 3.1% and 2.0%, respectively, of total employment.

Indiana is a national leader in products as diverse as surgical supplies, potato chips, furniture, transistors, glass containers, band instruments, books, etc. The following table looks at the top ten largest sectors by employment. The top three, Health Services, Eating & Drinking Places and Business Services make up 20% of the total workforce. Conversely, those sectors related to durable goods and manufacturing, Transportation Equipment, Wholesale Trade – Durable Goods, and Industrial & Commercial Machinery and Computer Equipment, make up less than half of the top three or 9.5% of the total workforce.

<b>Table VIII-12</b> <b>Industry Diversity 2001</b>		
Sector	Indiana Employment	Sector Share of Total Employment
Health Services	235,300	8.0%
Eating and Drinking Places	203,100	6.9%
Business Services	157,500	5.3%
Transportation Equipment	116,300	3.9%
Wholesale Trade - Durable Goods	97,700	3.3%
Special Trade Contractors	93,000	3.1%
General Merchandise Stores	88,600	3.0%
Miscellaneous Retail	76,400	2.6%
Industrial & Comm. Machinery & Computer Equipment	67,600	2.3%
Food Stores	66,500	2.2%
Total	1,202,000	40.6%

\*Note: all categories are two-digit SIC Code Classifications.

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

**Table VIII-13**  
**100 Largest Public and Private Employers in Indiana**

<b>Company</b>	<b>Indiana FTE Employees</b>	<b>Company</b>	<b>Indiana FTE Employees</b>
Kroger Co.	24,000	United Airlines	3,400
Wal-Mart	22,000	Walgreens Drug Stores	3,400
McDonald's	18,000	Federal Express	3,375
Delphi Automotive	17,000	United Technologies Corp.	3,350
General Motors	13,500	CNB Bankshares	3,300
Daimler-Chrysler Corp.	12,800	Coachman Industries	3,300
Eli Lilly and Co.	12,410	Subway	3,300
K-mart	12,000	Wabash National Corp.	3,300
Clarian Health Partners	10,000	Bob Evans Restaurants	3,200
Dana Corp.	9,300	Lincoln National Corp.	3,200
Marsh Supermarkets	8,900	SuperValu	3,200
Ispat Inland Inc.	8,300	Subaru Isuzu Automotive	3,160
Bank One, Indiana	8,000	Lear corp.	3,100
United States Steel Co.	8,000	Anthem	3,000
Visteon Automotive Systems	7,800	Applebees	3,000
Burger King	7,200	Hillenbrand Industries	3,000
General Electric Co.	7,100	KFC	3,000
Pizza Hut	7,050	Papa Johns Pizza	3,000
Cummins Engine Co.	7,000	Guide Corp	2,940
Ameritech Indiana	6,700	Whirlpool Corp.	2,900
Central Indiana Health System	6,500	White Castle	2,825
Kimball International Inc.	5,865	Aristokraft Inc.	2,800
CVS Drugs	6,050	Federal Mogul Corp.	2,800
Bethlehem Steel Corp.	6,000	Raytheon Co.	2,600
Meijer inc.	6,050	Thompson Consumer Electronics	2,530
NiSource Inc.	5,300	Fairmont Homes	2,500
Dairy Queen	5,200	Marriott	2,500
Wendy's	5,150	National City Bank	2,500
Rolls Royce Allison	5,000	USA Group	2,500
Taco Bell	5,000	Toyota Motor Co.	2,475
Hardees	4,800	Amtran	2,400
Sony Electronics	4,681	Bayer Corp.	2,350
Arby's RTM Mid-America	4,550	Tomkins Industries	2,350
Quorum	4,400	Brylane LP	2,300
Alcoa, Inc.	4,300	Frito-Lay Inc.	2,300
Bristol-Myers Squibb Co.	4,300	Goodwill Industries	2,300
Target	4,300	ITT Defense & Electronics	2,300
Sears & Roebuck	4,200	AT&T	2,200
Sony Electronics	4,150	Central Newspapers Inc.	2,200
Arvin Industries	4,100	Fleetwood Enterprises Inc	2,200
Cinergy/PSI	4,000	Lowe's	2,200
LTV Steel	4,000	Monaco Coach	2,200
Indiana Michigan Power	3,800	Dura Automotive	2,100
RR Donnelley & Sons	3,800	Allied Signal	2,050
United Parcel Service	3,740	Caesar's World Casino	2,000
Conseco	3,600	Hyatt Grand Victoria Casino	2,000
Consolidated Products	3,600	Smurfit Stone Container	2,000
Navistar International	3,500	Franklin Electric Co.	1,950
Norfolk Southern corp.	3,500	IPALCO	1,940
GTE North, Indiana	3,400	Burlington Motor Carriers	1,930

Source: Indiana Chamber of Commerce, June 2000

## Exports

Between 1990 and 2000, both Indiana and the nation experienced strong export growth. During this period, Indiana exports increased by 160%, exceeding the overall national growth rate of 99%. In 2000, Indiana experienced export growth of slightly more than 18% while exports for the United States increased by about 13%. In 2000, the State's exports rose to an all-time high of \$16.53 billion. The fastest growing industry was Primary Metals, with a 56% increase, followed by Industrial Machinery and Computer Equipment with a 35% growth over the prior year. Mexico accounts for the fastest growing market, with exports more than doubling from \$812 million in 1999 to \$2.217 billion in 2000. Canada remained Indiana's largest trading partner. In 2000, Indiana opened its 13<sup>th</sup> foreign trade office in Israel.

<b>Table VIII-15 Indiana Exports</b>					
Year	Exports in Millions of Dollars		Annual Percentage Change		
	Indiana	U.S.	Indiana	U.S.	Indiana as a % of U.S. Exports
1990	6,359	392,975	17.5%	12.9%	1.6%
1991	6,438	421,853	1.2%	7.4%	1.5%
1992	6,837	447,471	6.2%	6.1%	1.5%
1993	8,033	464,858	17.5%	3.9%	1.7%
1994	9,261	512,416	15.3%	10.2%	1.8%
1995	11,628	583,031	25.6%	13.8%	2.0%
1996	12,039	622,827	3.5%	6.8%	1.9%
1997	13,136	687,598	9.1%	10.4%	1.9%
1998	13,403	680,474	2.0%	(1.0)%	2.0%
1999	13,970	692,820	4.2%	1.8%	2.0%
2000	16,528	780,419	18.3%	12.6%	2.1%
	Total Growth = 160%	Total Growth = 99%	Average = 10.3%	Average = 7.2%	

<b>Table VIII-16 Indiana's Leading Trade Partners</b>			
Top Export Destinations		Fastest Growing Export Destinations <b>Since 1988*</b>	
Country	2000 Exports (\$M)	Country	% Avg. Annual
Canada	\$7,554	Poland	40.6
Mexico	2,217	Philippines	28.2
UK	890	Hungary	28.0
Japan	876	Mexico	27.3
Netherlands	577	Malaysia	25.5
France	522	Honduras	23.8
Germany	452	Argentina	22.3
Brazil	328	Portugal	22.1
Australia	284	United Arab Emirates	21.6
Singapore	282	Chile	20.6

\* Includes only those export destinations receiving over \$100 million in total exports from Indiana since 1988.

**Table VIII-17**  
**Indiana's Leading Export Industries**

Top Export Industries		Fastest Growing Export Industries Since 1988*	
Industry	2000 Exports (\$M)	Industry	% Avg. Annual Growth
Transportation Equipment	\$4,901	Fabricated Metal	18.13
Industrial Machinery	2,916	Stone, Clay, & Glass	17.62
Chemicals	2,372	Transportation Equipment	15.90
Electronics	1,411	Instruments	14.65
Primary Metals	1,026	Rubber & Plastic	13.81
Fabricated Metals	880	Industrial Machinery	12.08
Technology Instruments	844	Wood Products	11.59
Rubber & Misc. Plastic	579	Food Products	9.72
Food Products	291	Electronics	8.30
Stone, Clay, & Glass	206	Primary Metals	7.95

\* Includes only those export destinations with growth over \$100 million in total exports from Indiana since 1988.  
Excludes Miscellaneous Goods shipments  
Growth is based on geometric growth rate.

Source: Massachusetts Institute for Social and Economic Research (MISER), Indiana Dept. of Commerce

## Transportation

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The "Crossroads of America," Indiana is centrally situated within the Great Lakes region and is within a day's drive of nearly two-thirds of the United States' population. In addition to an extensive network of highways and railroads, the State has strong air service for both passengers and freight and access to the Great Lakes and the St. Lawrence Seaway, as well as the Ohio and Mississippi rivers.

**Highways.** Five interstate routes converge on Indianapolis. The Indiana Department of Transportation manages a network of more than 11,000 miles (17,600 km) of federal and State highways. The State is an important location for truck terminals and warehouse centers. This is reflected in the density of truck traffic in the state. Indiana highways carry the sixth highest concentration of truck traffic and the highest for any urban or Eastern state.

**Railroads.** Indiana is served by at least 43 freight railroads according to the Rail Section of the Indiana Department of Transportation. The State rail network moves raw materials and finished goods to and from hundreds of Indiana customers and is part of the interstate rail system between northeast and western states and between the City of Chicago and the southeastern states. The State has approximately 4,250 miles of railroad track. Ninety of Indiana's ninety-two counties have direct rail service.

**Aviation.** The State has 114 public use landing facilities. Of these, 6 are primary airports, 6 are reliever airports, 94 are general aviation airports, 2 are ultralight flight parks, 4 are seaplane bases, and 2 are heliports. The primary airports include 1 medium-hub, 1 small-hub airport and 4 non-hub airports. The world's leading air cargo and package services operate major facilities in Indiana, including Federal Express and Kitty Hawk.

**Ports and Waterways.** The Great Lakes/St. Lawrence Seaway and the Ohio River provide conduits for bulk commodities and general cargo movement of agricultural and manufacturing products. In 1970, the State opened Indiana's International Port, on Lake Michigan to accommodate international and Great Lakes traffic. In 1979, the State opened Southwind Maritime Centre, along the Ohio River, near Mount Vernon in southwest Indiana; and, in 1984, the State opened Clark Maritime Centre along the Ohio River, near Jeffersonville, in south central Indiana.

**Public Transportation.** Indiana's 44 public transit systems include fixed route and demand response bus systems including one commuter rail system (between South Bend and Chicago). The State's public transit systems carried over 31.5 million passengers in 2000, an increase of 4% from 1999. Transit system vehicles traveled 32.1 million miles in 2000, an increase of 3.5% from 1999. Total fare revenue collected in 2000 was \$31.7 million. The statewide farebox recovery percentage (which illustrates the extent to which total operating expenses are covered by fare-paying passengers) was 27% in 2000. The State Public Mass Transportation Fund, which receives .76% of total State Sales and Use Taxes, accounted for \$28.4 million, or 24.0%, of total public transit operating revenues in 2000.

## Education

**Elementary and Secondary.** Elementary and Secondary education in the State is provided by 294 school districts, which in the 2001-02 school year operated 1,152 elementary schools, 242 elementary/junior high schools, 18 elementary/high schools, 256 junior high/high schools, 91 junior high schools, 75 high schools and 131 schools of special education, vocational education and alternative programs. These numbers do not include private or independent or parochial elementary and high schools, which, in the 2000-01 school year, accounted for 7.1% of the total enrollment at elementary and secondary schools within the State. Public student enrollment for the 2000-01 school year was 993,173.

All public elementary and secondary schools are administered locally by elected or appointed school boards. At the state level, the Indiana State Board of Education, which is comprised of the elected Superintendent of Public Instruction (who serves as chairman) and ten members appointed by the Governor, is the rulemaking body for the public school system. At least four of the appointed members of the State Board of Education must be actively employed in Indiana schools and hold valid teaching or administrative licenses. The Indiana Department of Education, under the direction of the Superintendent of Public Instruction, serves as the professional, technical and clerical staff for the Indiana State Board of Education. The Department administers federal and state education programs.

Approximately 59,206 teachers and 10,606 other professional staff members were employed in the State public school system during the 2000-01 school year. This results in a student teacher ratio (based on total enrollment,) of 16.7:1. The average annual salary for public school teachers in the State (excluding part-time teachers) was \$43,311 during the 2000-01 school year.

**Higher Education.** The Commission for Higher Education was established in 1971 to plan and coordinate Indiana's system of post-secondary education. The Commission develops long-range plans, reviews budget requests of public post-secondary institutions, and considers the approval of new degree programs.

Indiana has seven public post-secondary institutions. They include six universities, one of which offers only two-year degrees, and a technical college. Indiana University manages seven campuses including the flagship campus in Bloomington and the joint IU-Purdue campus in Indianapolis. Purdue University is the State's land grant institution. It manages four campuses, including a joint IU-Purdue campus in Fort Wayne. Ivy Tech State College offers degree programs on twenty-three campuses. Vincennes University maintains a branch campus in Jasper and several instructional sites in Indianapolis. The State is also home to more than thirty-two independent colleges and universities. In the fall of 2001, Indiana's public campuses enrolled 253,721 students – a 4.3% increase over fall 2000 enrollment, while the independent campuses enrolled 70,393 – a 3.0% increase over fall 2000 enrollment.

In 1999, the Indiana General Assembly authorized the creation of a new learning partnership in Indiana, the Community College of Indiana. This partnership of Ivy Tech State College and Vincennes University will focus on both non-degree, skill improvement courses as well as two-year degrees, with greater opportunity to transfer course credits to four-year state universities. The new Community College will stress accessible and affordable education, training and support services. Ivy Tech's twenty-three statewide campuses will provide the facilities for the College. Initial pilot sites in Evansville, Gary, Lafayette and Indianapolis opened in the fall of 2000 with very strong enrollment gains. Anderson, Lawrenceburg, Marion and Muncie were added in 2001, with expansion to all Ivy Tech locations planned over the next four years.

In 1998, nearly 61% of Indiana's high school graduates went on to college, compared to the national average of 57.2%, ranking Indiana 17<sup>th</sup> in the nation. This is the first time ever that Indiana has exceeded the national average. From 1994 to 1998, the national average experienced little to no growth while Indiana's college-going rate increased by 5.5%, placing the state among the top ten for percentage gains in college attendance of high school graduates.

**Table VIII-18**  
**Public Post-Secondary Institutions**  
**Fall 2001**

<b>Name</b>	<b>Programs Offered</b>	<b>Fall Headcount</b>	<b>Campus Locations</b>
Ball State University	4-year	19,488	Muncie
Indiana State University	4-year	11,321	Terre Haute
Indiana University	4-year	90,125	Bloomington, Richmond, Kokomo, Gary, South Bend, New Albany, Indianapolis, Fort Wayne
Purdue University	4-year	63,602	West Lafayette, Hammond, Fort Wayne, Westville, Indianapolis
University of Southern Indiana	4-year	9,362	Evansville
Vincennes University	2-year	8,467	Vincennes, Jasper, Indianapolis
Ivy Tech State College	2-year	51,356	Gary, East Chicago, South Bend, Elkhart, Valparaiso, Fort Wayne, Lafayette, Kokomo, Muncie, Anderson, Wabash Valley, Richmond, Columbus and Bloomington, Lawrenceburg, Evansville, Sellersburg, Indianapolis

## **IX. LITIGATION**

The following is a summary of certain significant litigation and other claims currently pending against the State, which involve amounts exceeding \$5 million individually or in the aggregate as of January 14, 2002. With respect to tort claims only, the State's liability is limited to \$300,000 for injury to or death of one person in any one occurrence, and \$5,000,000.00 for injury to or death of all persons in that occurrence.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court and will gradually reduce the State's expenditures over that time frame.

On July 26, 1993, a lawsuit was filed in Marion Superior Court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay. The plaintiffs in the action sought class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. This matter is still pending and, if the plaintiffs are ultimately successful, the loss would be in excess of \$5 million.

In a lawsuit filed against the State on January 9, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that permits the State to ignore applicants' who are unable to pay but have a medical condition that will improve with treatment. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of Appeals recently affirmed the trial court's decision. The State sought transfer to the Supreme Court. In July 2001, the Supreme Court denied transfer, thus affirming the adverse trial court decision. As of December 2001, the State and the plaintiffs have agreed on Medicaid's manner of compliance with the judgment, and the agreement is awaiting court approval. The fiscal impact is estimated to be \$63.9 million over the current biennium and \$322.7 million in possible retroactive payments.

In 1993, certain transportation providers filed lawsuits against the State, challenging the current Medicaid reimbursement program for transportation services. The state prevailed in both the state and federal trial courts, but the plaintiffs appealed. The State won the appeal, but the federal appeal resulted in a remand for lack of federal jurisdiction. The State will retry the federal issues before a state trial court. If the rules are ultimately enjoined, the State would forfeit savings in excess of \$5 million.

On February 10, 2000, a class action by a group of truckers and trucking companies seeks what may be in excess of \$5 million in fuel tax refunds attributable to five quarters between the date the previous proportional use exemption was declared unconstitutional and the date the present proportional use exemption was enacted. The case is presently pending in the Tax Court. The Tax Court denied class certification, which substantially reduces the potential liability; however, the truckers have already filed a petition for review in the Supreme Court (which was dismissed as premature), so the class action ruling is subject to further court proceedings. The Tax Court has also ruled that the claimants are entitled to refunds of the tax paid during the five quarters (15 months) at issue in the case. Discovery and other proceedings are currently ongoing concerning the amount of the refunds to be paid. At the appropriate time, it is anticipated that a petition for review will be filed in the Supreme Court to challenge the conclusion that refunds are due.

In September 2000 various Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the Indigent property tax and that the tax therefore violates various constitutional provisions. It is similar to five previous suits that were dismissed on procedural grounds but this one is likely to be addressed on the merits. A response to the petition was filed in November 2000. Plaintiffs are claiming that upwards of \$20 million should be refunded to taxpayers. The parties filed cross-motions for summary judgment and Judge Fisher heard oral argument on December 4, 2001. He indicated that he would issue a decision in 90 days.

In February 2000 several trucking companies filed a suit in Tax Court challenging the collection of motor fuel tax attributable to miles driven on the Indiana Toll Road and seeking refunds of approximately \$100 million. They claim that motor fuel tax tied to Toll Road use violates the Commerce Clause of the U. S. Constitution and constitutes double taxation as the truckers also pay to use the Toll Road. On October 30, 2001, the Tax Court denied class certification and also granted summary judgment to the Department of Revenue, concluding that no refund is due. The trucking companies have filed a petition for rehearing with the Tax Court. There is no doubt that a petition for review will be filed with the Supreme Court at the appropriate time.

In July 2000, a gaming corporation operating one of the riverboats has challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions for summary judgment. The potential financial impact of this case is between \$5 and \$10 million, with additional impact because of the precedent it would have on other gaming operations.

In 1995, Property owners filed an action against the Department of Environmental Management, the Office of Environmental Adjudication and current and former officials of those agencies claiming that denial of a permit for certain land use was an unconstitutional taking and denial of due process, as well as violation of the Indiana Constitution. The plaintiffs are seeking in excess of \$30 million in damages plus costs and attorney fees. The case is pending in federal court.

On May 16, 2000, property owners along the Fawn River filed an action against the Governor, Indiana Department of Natural Resources and officials and employees of IDNR for violations of the Clean Water Act, unconstitutional takings and section 1983 violations. The Plaintiffs are seeking in excess of \$30 million in damages, costs and attorneys fees. The case is pending in both federal and state court.

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**EXHIBIT A-1  
TO  
APPENDIX A**

**GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE STATE OF INDIANA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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# STATE OF INDIANA

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## INDEPENDENT AUDITORS' REPORT

TO: The Honorable Frank O'Bannon  
The Members of the General Assembly, and  
The Citizens of the State of Indiana

We have audited the accompanying general purpose financial statements of the State of Indiana as of and for the year ended June 30, 2001. These general purpose financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which statements reflect total assets and revenues of \$6,095.2 million and \$1,160.4 million respectively, as of and for the year ended June 30, 2001. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based solely upon the reports of the other auditors. These reports represent 22% of special revenue fund assets, 100% of debt service fund assets, 12.2% of capital projects fund assets, 94.4% of enterprise fund assets, 87.6% of internal service fund assets and 100% of proprietary and governmental discretely presented component unit assets.

We conducted our audit in accordance with general accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Indiana as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note III (I) to the financial statements, the State of Indiana has restated certain beginning fund balances and retained earnings. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 2000 year end.

The required supplementary information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Indiana. The combining and individual fund financial statements, account groups and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, and not the information in the Introductory and Statistical sections, has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the fund types and account groups included in the general purpose financial statements taken as a whole. We express no opinion on the information in the Introductory or Statistical Sections.

December 20, 2001

*State Board of Accounts*  
STATE BOARD OF ACCOUNTS



**State of Indiana**  
**Combined Balance Sheet**  
**All Fund Types, Account Groups, and Component Units**  
**June 30, 2001**  
(amounts expressed in thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Assets and other debits:</b>						
<b>Assets:</b>						
Cash, cash equivalents and investments - restricted	\$ -	\$ -	\$ -	\$ -	\$ 114,790	\$ 25,520
Cash, cash equivalents and investments - unrestricted	1,351,606	2,877,127	14,651	622,231	206,820	209,196
Securities lending collateral	1,324,527	973,020	-	375,671	-	934
Receivables:						
Taxes (net of allowance for uncollectible accounts)	1,043,312	392,840	-	1,601	-	-
Accounts	10,104	22,898	-	-	20,178	7,565
Grants	3,819	48,960	-	225	-	-
Notes	-	-	-	-	-	-
Interest	5,332	25,722	34	797	707	499
Contributions	-	-	-	-	-	-
Member loans	-	-	-	-	-	-
Interfund	7,331	16,096	-	21,385	-	-
Due from other funds	-	-	3,450	-	-	7,121
From investment sales	-	-	-	-	-	-
Other	-	-	-	-	-	-
Due from primary government	-	-	-	-	-	-
Due from component unit	-	-	-	-	-	-
Advances to other funds	2,408	64,475	-	-	-	300
Intergovernmental loans	7,466	490,294	-	5,985	-	-
Student loans	-	-	-	-	-	-
Mortgage loans	-	-	-	-	-	-
Inventory	-	-	-	-	3,945	9,252
Prepaid expenses/expenditures	1,877	2,765	-	-	759	1,202
Food stamp inventory	-	105,860	-	-	-	-
Construction in progress	-	-	-	-	34,694	201,271
Bond issue costs - net of amortization	-	-	-	-	1,885	10,202
Property, plant and equipment, net	-	-	-	-	217,315	567,989
Other assets	-	-	-	-	11,273	-
<b>Other debits:</b>						
Amount available for debt service fund	-	-	-	-	-	-
Amount to provided for retirement of long term debt	-	-	-	-	-	-
<b>Total assets and other debits</b>	<b>\$ 3,757,782</b>	<b>\$ 5,020,057</b>	<b>\$ 18,135</b>	<b>\$ 1,027,895</b>	<b>\$ 612,366</b>	<b>\$ 1,041,051</b>
<b>Liabilities, equity and other credits:</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 89,054	\$ 319,187	\$ 3,066	\$ 6,938	\$ 21,729	\$ 7,895
Accrued interest payable	-	-	2,245	-	5,179	42,460
Salaries and benefits payable	43,564	38,080	-	-	3,706	1,228
Capital lease payable	-	-	-	-	-	66
Pension / health / disability benefits payable	-	-	-	-	-	35,406
Interfund payables	-	7,331	-	8,596	28,885	-
Due to component unit	-	639,787	-	-	7,500	78
Due to other funds	3,305	7,256	-	5	-	5
Tax refunds payable	35,194	2,805	-	-	-	-
Deferred revenue	416,906	295,185	-	161	3,700	4,656
Accrued prize liability	-	-	-	-	35,189	-
Accrued liability for compensated absences	3,069	2,715	-	-	-	85
Intergovernmental payable	43,087	730,300	-	-	-	-
Escheated property liability	-	-	-	-	-	-
Investment purchases payable	-	-	-	-	-	-
Other liabilities	-	-	-	-	1,419	256
Securities lending collateral	1,324,527	973,020	-	375,671	-	934
Obligations under reverse repurchase agreements	-	-	-	-	-	-
Long term liabilities:						
Construction retention	-	-	-	-	-	6,198
Accrued liability for compensated absences	-	-	-	-	245	1,695
Net Pension Obligations	-	-	-	-	-	-
Capital lease payable	-	-	-	-	-	74
Accrued prize liability	-	-	-	-	44,290	-
Advances from other funds	-	66,383	-	-	300	500
Revenue bonds / notes payable	-	-	-	-	234,584	842,516
<b>Total liabilities</b>	<b>1,958,706</b>	<b>3,082,049</b>	<b>5,311</b>	<b>391,371</b>	<b>386,726</b>	<b>944,052</b>
<b>Equity and other credits:</b>						
Investment in general fixed assets / plant	-	-	-	-	-	-
Contributed Capital	-	-	-	-	9,353	20,349
Retained earnings:						
Reserved (see note III. G.)	-	-	-	-	189,565	25,980
Unreserved	-	-	-	-	26,722	50,670
Fund balances:						
Reserved (see note III. G.)	354,453	1,619,860	12,824	19,409	-	-
Unreserved:						
Allocated	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Designated for appropriations	240,414	319,825	-	384,219	-	-
Designated for allotments	693,150	754,047	-	107,834	-	-
Undesignated	511,059	(755,724)	-	125,062	-	-
<b>Total equity and other credits</b>	<b>1,799,076</b>	<b>1,938,008</b>	<b>12,824</b>	<b>636,524</b>	<b>225,640</b>	<b>96,999</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 3,757,782</b>	<b>\$ 5,020,057</b>	<b>\$ 18,135</b>	<b>\$ 1,027,895</b>	<b>\$ 612,366</b>	<b>\$ 1,041,051</b>

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Units				Totals Reporting Entity
	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	Governmental	Proprietary	Pension Trust	Colleges and Universities	(Memorandum Only)
\$ -	\$ -	\$ -	\$ 140,310	\$ 24,666	\$ 289,224	\$ -	\$ -	\$ 454,200
3,215,556	-	-	8,497,187	4,853	363,414	15,965,754	2,359,267	27,190,475
458,971	-	-	3,133,123	-	321,063	1,981,094	116,294	5,551,574
16,006	-	-	1,453,759	-	-	-	-	1,453,759
50	-	-	60,795	-	-	-	166,457	227,252
1,024	-	-	54,028	-	-	-	-	54,028
-	-	-	-	5,309	-	-	-	5,309
1,137	-	-	34,228	-	44,357	98,265	13,840	190,690
173	-	-	173	-	-	142,276	-	142,449
8,803	-	-	8,803	-	-	-	-	8,803
-	-	-	44,812	-	-	-	-	44,812
-	-	-	10,571	-	-	-	-	10,571
-	-	-	-	-	-	221,447	-	221,447
-	-	-	-	281	-	-	43,087	43,368
-	-	-	-	-	638,853	8,512	-	647,365
-	-	-	-	-	-	10,962	-	10,962
-	-	-	67,183	-	-	-	-	67,183
326,578	-	-	830,323	-	659,757	-	-	1,490,080
-	-	-	-	-	188,064	-	126,298	314,362
-	-	-	-	-	791,725	-	-	791,725
-	-	-	13,197	-	-	-	30,269	43,466
-	-	-	6,603	-	-	-	22,319	28,922
-	-	-	105,860	-	-	-	-	105,860
-	-	-	235,965	-	-	-	46,626	282,591
-	-	-	12,087	-	21,240	-	-	33,327
-	1,672,821	-	2,458,125	-	533	59	3,250,391	5,709,108
-	-	-	11,273	-	3,469	-	21,839	36,581
-	-	12,824	12,824	-	-	-	-	12,824
-	-	1,048,928	1,048,928	-	-	-	-	1,048,928
<b>\$ 4,028,298</b>	<b>\$ 1,672,821</b>	<b>\$ 1,061,752</b>	<b>\$ 18,240,157</b>	<b>\$ 35,109</b>	<b>\$ 3,321,699</b>	<b>\$ 18,428,369</b>	<b>\$ 6,196,687</b>	<b>\$ 46,222,021</b>
\$ 431,110	\$ -	\$ -	\$ 878,979	\$ 62	\$ 3,223	\$ 8,223	\$ 125,376	\$ 1,015,863
-	-	-	49,884	-	30,325	-	-	80,209
-	-	-	86,578	-	-	8,610	26,863	122,051
-	-	-	66	-	-	-	33,300	33,366
-	-	-	35,406	-	-	-	-	35,406
-	-	-	44,812	-	-	-	-	44,812
-	-	-	647,365	-	-	10,962	-	658,327
-	-	-	10,571	-	-	-	-	10,571
-	-	-	37,999	-	-	-	-	37,999
-	-	-	720,608	-	-	-	81,760	802,368
-	-	-	35,189	-	-	-	-	35,189
-	-	-	5,869	-	-	-	72,874	78,743
312,361	-	-	1,085,748	-	-	-	-	1,085,748
8,364	-	-	8,364	-	-	-	-	8,364
-	-	-	-	-	-	544,952	-	544,952
544	-	-	2,219	4,765	753	-	160,341	168,078
458,971	-	-	3,133,123	-	321,063	1,981,094	116,294	5,551,574
-	-	-	-	-	-	-	46,344	46,344
-	-	-	6,198	-	-	-	-	6,198
-	-	113,995	115,935	-	-	-	-	115,935
-	-	578	578	-	-	-	-	578
-	-	7,511	7,585	-	-	-	-	7,585
-	-	-	44,290	-	-	-	-	44,290
-	-	-	67,183	-	-	-	-	67,183
-	-	939,668	2,016,768	-	2,463,839	-	1,235,648	5,716,255
1,211,350	-	1,061,752	9,041,317	4,827	2,819,203	2,553,841	1,898,800	16,317,988
-	1,672,821	-	1,672,821	-	-	-	2,091,537	3,764,358
-	-	-	29,702	-	-	-	-	29,702
-	-	-	215,545	-	-	-	422,750	638,295
-	-	-	77,392	-	502,496	-	-	579,888
634,497	-	-	2,641,043	5,948	-	15,874,528	-	18,521,519
-	-	-	-	-	-	-	995,286	995,286
-	-	-	-	-	-	-	788,314	788,314
2,445	-	-	946,903	-	-	-	-	946,903
2,147,374	-	-	3,702,405	-	-	-	-	3,702,405
32,632	-	-	(86,971)	24,334	-	-	-	(62,637)
2,816,948	1,672,821	-	9,198,840	30,282	502,496	15,874,528	4,297,887	29,904,033
<b>\$ 4,028,298</b>	<b>\$ 1,672,821</b>	<b>\$ 1,061,752</b>	<b>\$ 18,240,157</b>	<b>\$ 35,109</b>	<b>\$ 3,321,699</b>	<b>\$ 18,428,369</b>	<b>\$ 6,196,687</b>	<b>\$ 46,222,021</b>

**State of Indiana**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Fund Types, Expendable Trust Funds, and Similar Discretely**  
**Presented Component Units**  
**For the Fiscal Year Ended June 30, 2001**  
(amounts expressed in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust		Governmental	
<b>Revenues:</b>								
Taxes:								
Income	\$ 5,500,612	\$ 81,635	\$ -	\$ -	\$ -	\$ 5,582,247	\$ -	\$ 5,582,247
Sales	2,138,971	1,528,532	-	-	-	3,667,503	-	3,667,503
Fuels	-	768,957	-	-	-	768,957	-	768,957
Gaming	122,201	352,508	-	-	-	474,709	-	474,709
Unemployment	-	-	-	-	238,826	238,826	-	238,826
Inheritance	170,995	-	-	-	-	170,995	-	170,995
Alcohol & tobacco	72,110	88,004	-	14,940	-	175,054	-	175,054
Insurance	149,143	2,009	-	-	-	151,152	-	151,152
Financial institutions	-	49,245	-	-	-	49,245	-	49,245
Other	4,252	118,475	-	-	-	122,727	-	122,727
Total taxes	8,158,284	2,989,365	-	14,940	238,826	11,401,415	-	11,401,415
Licenses, permits and franchises	30,810	393,797	-	-	-	424,607	-	424,607
Current service charges	193,437	419,350	-	112	-	612,899	206	613,105
Investment income	296,168	145,834	1,327	54,476	83,958	581,763	2,629	584,392
Sales/rents	741	69,019	-	-	-	69,760	17	69,777
Member contributions	-	-	-	-	56,118	56,118	-	56,118
Grants	18,935	5,287,202	-	11,135	13,456	5,330,728	-	5,330,728
Donations/escheats	-	1,901	-	-	29,991	31,892	-	31,892
Other	7,071	272,155	-	1,268	-	280,494	-	280,494
Total revenues	8,705,446	9,578,623	1,327	81,931	422,349	18,789,676	2,852	18,792,528
<b>Expenditures:</b>								
Current:								
General government	1,952,388	2,099,935	-	-	1,287	4,053,610	-	4,053,610
Public safety	610,933	486,543	-	-	-	1,097,476	-	1,097,476
Health	132,887	175,644	-	-	-	308,531	-	308,531
Welfare	387,646	5,227,815	-	-	4,625	5,620,086	-	5,620,086
Conservation, culture and development	76,405	409,969	-	-	458,245	944,619	22,684	967,303
Education	5,471,491	605,405	-	-	-	6,076,896	-	6,076,896
Transportation	3,734	1,407,973	-	-	-	1,411,707	-	1,411,707
Member withdrawals	-	-	-	-	22,035	22,035	-	22,035
Capital outlays	-	-	-	129,934	-	129,934	-	129,934
Loss on reimbursement agreement	-	-	-	-	-	-	4,031	4,031
Debt service	-	-	63,709	-	-	63,709	-	63,709
Total expenditures	8,635,484	10,413,284	63,709	129,934	486,192	19,728,603	26,715	19,755,318
Excess (deficiency) of revenues over (under) expenditures	69,962	(834,661)	(62,382)	(48,003)	(63,843)	(938,927)	(23,863)	(962,790)
<b>Other financing sources (uses):</b>								
Bond proceeds	-	312	-	240,577	-	240,889	-	240,889
Operating transfers in	2,102,277	4,816,655	63,166	368,363	1,440	7,351,901	-	7,351,901
Operating transfers (out)	(3,254,432)	(3,583,741)	-	(408,550)	(39,640)	(7,286,363)	-	(7,286,363)
Operating transfers in -- from primary government	-	-	-	-	-	-	23,374	23,374
Operating transfers in -- from component unit	-	-	-	-	2,328	2,328	-	2,328
Operating transfers (out) -- to component unit	(7,169)	-	-	(16,205)	-	(23,374)	-	(23,374)
Proceeds from capital leases	155	4,662	-	-	-	4,817	-	4,817
Total other financing sources (uses)	(1,159,169)	1,237,888	63,166	184,185	(35,872)	290,198	23,374	313,572
Excess of revenues and other financing sources over (under) expenditures and other uses	(1,089,207)	403,227	784	136,182	(99,715)	(648,729)	(489)	(649,218)
Fund balances, July 1, as restated	2,888,283	1,534,781	12,040	500,342	2,122,464	7,057,910	30,771	7,088,681
Fund balances, June 30	\$ 1,799,076	\$ 1,938,008	\$ 12,824	\$ 636,524	\$ 2,022,749	\$ 6,409,181	\$ 30,282	\$ 6,439,463

The notes to the financial statements are an integral part of this statement.



**State of Indiana**  
**Combined Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**  
**General Fund**  
**For the Year Ended June 30, 2001**  
(amounts expressed in thousands)

	<b>Budget</b>		<b>Actual</b>	<b>Variance to</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>
<b>Revenues:</b>				
Taxes:				
Income	\$ 5,271,000	\$ 5,271,000	\$ 5,553,425	\$ 282,425
Sales	2,231,800	2,231,800	2,130,404	(101,396)
Gaming	-	-	122,201	122,201
Inheritance	136,700	136,700	163,674	26,974
Alcohol and tobacco	65,700	65,700	67,076	1,376
Insurance	150,000	150,000	147,895	(2,105)
Other	8	8	4,252	4,244
Total taxes	7,855,208	7,855,208	8,188,927	333,719
Licenses	20,460	20,460	30,810	10,350
Current service charges	133,934	133,934	183,333	49,399
Investment income	170,000	170,000	186,038	16,038
Sales	-	-	900	900
Grants	67,900	67,900	15,201	(52,699)
Other	2,700	2,700	7,071	4,371
Total revenues	8,250,202	8,250,202	8,612,280	362,078
<b>Expenditures:</b>				
General government	1,915,486	2,118,415	1,833,802	284,613
Public safety	617,189	673,239	597,776	75,463
Health	122,445	144,947	133,469	11,478
Welfare	442,332	426,661	388,911	37,750
Conservation, culture and development	102,872	158,645	76,236	82,409
Education	5,437,240	5,489,022	5,469,041	19,981
Transportation	1,163	13,255	4,499	8,756
Total expenditures	8,638,727	9,024,184	8,503,734	520,450
Excess of revenues over (under) expenditures	(388,525)	(773,982)	108,546	882,528
<b>Other financing sources (uses):</b>				
Total other financing sources (uses)	(1,222,948)	(1,222,948)	(1,159,324)	63,624
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b><u>\$ (1,611,473)</u></b>	<b><u>\$ (1,996,930)</u></b>	<b><u>\$ (1,050,778)</u></b>	<b><u>\$ 946,152</u></b>
<b>Fund balances July 1, as restated</b>			<b><u>2,426,460</u></b>	
<b>Fund balances June 30</b>			<b><u><u>\$ 1,375,682</u></u></b>	

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**  
**Special Revenue Fund Types**  
**For the Year Ended June 30, 2001**  
(amounts expressed in thousands)

	<b>Budget</b>		<b>Actual</b>	<b>Variance to</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>
<b>Revenues:</b>				
Taxes:				
Income	\$ 140,275	\$ 140,275	\$ 76,540	\$ (63,735)
Sales	1,500,597	1,500,597	1,517,979	17,382
Fuels	739,749	739,749	771,028	31,279
Gaming	330,424	330,424	351,771	21,347
Alcohol and tobacco	12,454	12,454	45,270	32,816
Insurance	5,168	5,168	2,009	(3,159)
Financial institutions	141,039	141,039	54,895	(86,144)
Other	34,305	34,305	118,310	84,005
Total taxes	2,904,011	2,904,011	2,937,802	33,791
Licenses	386,833	386,833	392,356	5,523
Current service charges	492,868	492,868	412,471	(80,397)
Investment income	24,777	24,777	35,988	11,211
Sales	13,245	13,245	11,025	(2,220)
Grants	4,378,950	4,378,950	4,877,542	498,592
Donations	3,750	3,750	1,901	(1,849)
Other	199,039	199,039	259,156	60,117
Total revenues	8,403,473	8,403,473	8,928,241	524,768
<b>Expenditures:</b>				
General government	1,933,131	1,993,533	1,860,853	132,680
Public safety	481,868	520,654	470,481	50,173
Health	173,668	203,146	178,388	24,758
Welfare	5,066,477	5,261,981	5,101,205	160,776
Conservation, culture and development	481,975	489,995	377,829	112,166
Education	584,254	623,222	605,818	17,404
Transportation	1,264,908	1,412,114	1,403,058	9,056
Total expenditures	9,986,281	10,504,645	9,997,632	507,013
Excess of revenues over (under) expenditures	(1,582,808)	(2,101,172)	(1,069,391)	1,031,781
<b>Other financing sources (uses):</b>				
Total other financing sources (uses)	456,322	456,322	1,260,363	804,041
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>\$ (1,126,486)</b>	<b>\$ (1,644,850)</b>	<b>\$ 190,972</b>	<b>\$ 1,835,822</b>
<b>Fund balances July 1, as restated</b>			<b>1,556,636</b>	
<b>Fund balances June 30</b>			<b>\$ 1,747,608</b>	

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Revenues, Expenses and**  
**Changes in Retained Earnings (or Equity)**  
**All Proprietary Fund Types, Nonexpendable Trust Funds and**  
**Similar Discretely Presented Component Units**  
**For the Fiscal Year Ended June 30, 2001**  
(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
<b>Operating revenues:</b>						
Sales/rents/premiums	\$ 573,951	\$ 86,736	\$ -	\$ 660,687	\$ -	\$ 660,687
Toll receipts	82,143	-	-	82,143	-	82,143
Charges for services	-	65,896	-	65,896	-	65,896
Interest on program loans	-	-	6,242	6,242	66,310	72,552
Investment income	-	-	-	-	139,387	139,387
Insurance premiums	-	118,007	-	118,007	-	118,007
Other	699	391	-	1,090	9,647	10,737
Total operating revenues	656,793	271,030	6,242	934,065	215,344	1,149,409
Cost of sales	387,678	18,725	-	406,403	-	406,403
Gross margin	269,115	252,305	6,242	527,662	215,344	743,006
<b>Operating expenses:</b>						
General and administrative expense	64,485	74,547	30,725	169,757	30,122	199,879
Claims expense	2,181	-	-	2,181	-	2,181
Health / disability benefit payments	-	91,313	-	91,313	-	91,313
Death settlements	-	809	-	809	-	809
Medical expense reimbursement	-	692	-	692	-	692
Depreciation and amortization	12,764	20,798	-	33,562	3,513	37,075
Other	251	-	-	251	649	900
Total operating expenses	79,681	188,159	30,725	298,565	34,284	332,849
Operating income (loss)	189,434	64,146	(24,483)	229,097	181,060	410,157
<b>Nonoperating revenues (expenses):</b>						
Interest and other investment income (expense)	(3,552)	(32,903)	4,582	(31,873)	(111,116)	(142,989)
Gain (loss) on disposition of assets	-	38	-	38	-	38
Other	4,480	-	-	4,480	(2,128)	2,352
Total nonoperating revenues (expenses)	928	(32,865)	4,582	(27,355)	(113,244)	(140,599)
Income (loss) before operating transfers	190,362	31,281	(19,901)	201,742	67,816	269,558
Operating transfers in	-	20,674	56,251	76,925	-	76,925
Operating transfers (out)	(125,636)	(16,690)	(137)	(142,463)	-	(142,463)
Operating transfers (out) - to component unit	(30,000)	-	-	(30,000)	-	(30,000)
Operating transfers (out) - to primary government	-	-	-	-	(2,328)	(2,328)
Net operating transfers	(155,636)	3,984	56,114	(95,538)	(2,328)	(97,866)
<b>Net income (loss)</b>	34,726	35,265	36,213	106,204	65,488	171,692
<b>Retained earnings/fund balances, July 1, as restated</b>	181,561	41,385	451,091	674,037	437,008	1,111,045
<b>Retained earnings/fund balances, June 30</b>	<u>\$ 216,287</u>	<u>\$ 76,650</u>	<u>\$ 487,304</u>	<u>\$ 780,241</u>	<u>\$ 502,496</u>	<u>\$ 1,282,737</u>

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Cash Flows**  
**All Proprietary Fund Types, Nonexpendable Trust Funds and**  
**Similar Discretely Presented Component Units**  
**For the Fiscal Year Ended June 30, 2001**  
(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
<b>Cash flows from operating activities:</b>						
Operating income (loss)	\$ 189,434	\$ 64,146	\$ (24,483)	\$ 229,097	\$ 181,060	\$ 410,157
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/amortization expense	12,764	20,798	-	33,562	3,513	37,075
Other provisions	367	(2,994)	-	(2,627)	(4,431)	(7,058)
(Increase) decrease in accounts receivable	(3,635)	1,646	-	(1,989)	-	(1,989)
(Increase) decrease in interest receivable	-	-	9	9	(284)	(275)
(Increase) decrease in intergovernmental loans	-	-	-	-	(52,326)	(52,326)
(Increase) decrease in student loans	-	-	-	-	6,310	6,310
(Increase) decrease in mortgage loans	-	-	-	-	(121,332)	(121,332)
(Increase) decrease in due from other funds	-	131	-	131	-	131
(Increase) decrease in inventory	676	1,596	-	2,272	-	2,272
(Increase) decrease in prepaid expenses	(190)	348	-	158	-	158
(Increase) decrease in other assets	-	-	-	-	(292)	(292)
Increase (decrease) in benefits payable	-	752	-	752	-	752
Increase (decrease) in accounts payable	(64)	(140)	-	(204)	(225)	(429)
Increase (decrease) in accrued interest payable	-	-	-	-	1,185	1,185
Increase (decrease) in deferred revenue	449	(1,708)	-	(1,259)	(5)	(1,264)
Increase (decrease) in salaries payable	983	267	-	1,250	-	1,250
Increase (decrease) in compensated absences	-	150	-	150	-	150
Increase (decrease) in due to other funds	-	(164)	-	(164)	-	(164)
Increase (decrease) in accrued prize liability	(25,703)	-	-	(25,703)	-	(25,703)
Increase (decrease) in compensated absences	(85)	-	-	(85)	-	(85)
Increase (decrease) in other liabilities	155	(255)	-	(100)	(557)	(657)
Net cash provided (used) by operating activities	175,151	84,573	(24,474)	235,250	12,616	247,866
<b>Cash flows from noncapital financing activities:</b>						
Operating transfers in	-	20,674	56,251	76,925	-	76,925
Operating transfers (out)	(159,679)	(16,690)	(137)	(176,506)	(2,328)	(178,834)
Issuance of intergovernmental loans	-	-	(75,313)	(75,313)	-	(75,313)
Proceeds from intergovernmental loans	-	-	18,500	18,500	-	18,500
Interest, debt issue costs	-	-	-	-	(133,058)	(133,058)
Proceeds from issuance of debt	-	-	-	-	809,393	809,393
Principal payments - bonds / notes	-	-	-	-	(666,515)	(666,515)
Net cash provided (used) by noncapital financing activities	(159,679)	3,984	(699)	(156,394)	7,492	(148,902)
<b>Cash flows from capital and related financing activities</b>						
Acquisition/construction of fixed assets	(28,012)	(145,837)	-	(173,849)	-	(173,849)
Proceeds from sale of fixed assets	-	390	-	390	-	390
Proceeds from issuance of long-term debt	-	98,662	-	98,662	-	98,662
Capital contributed	15	-	-	15	-	15
Principal payments -- capital leases	-	(101)	-	(101)	-	(101)
Principal payments -- bonds/notes	(9,992)	(11,382)	-	(21,374)	-	(21,374)
Interest, debt issue costs	(14,733)	(37,086)	-	(51,819)	-	(51,819)
Net cash provided (used) by capital and related financing activities	(52,722)	(95,354)	-	(148,076)	-	(148,076)
<b>Cash flows from investing activities:</b>						
Proceeds from sale of investments	852,073	189,638	315,184	1,356,895	844,709	2,201,604
Purchase of investments	(887,287)	(159,905)	(300,357)	(1,347,549)	(810,929)	(2,158,478)
Interest income on investments	21,019	5,765	4,582	31,366	16,757	48,123
Net cash provided (used) by investing activities	(14,195)	35,498	19,409	40,712	50,537	91,249
<b>Net increase (decrease) in cash and cash equivalents</b>	(51,445)	28,701	(5,764)	(28,508)	70,645	42,137
<b>Cash and cash equivalents, July 1</b>	178,703	64,408	61,665	304,776	146,158	450,934
<b>Cash and cash equivalents, June 30</b>	<u>\$ 127,258</u>	<u>\$ 93,109</u>	<u>\$ 55,901</u>	<u>\$ 276,268</u>	<u>\$ 216,803</u>	<u>\$ 493,071</u>
<b>Reconciliation of cash, cash equivalents and investments:</b>						
Cash and cash equivalents at end of year	\$ 127,258	\$ 93,109	\$ 55,901	\$ 276,268	\$ 216,803	\$ 493,071
Investments	194,352	141,607	104,825	440,784	435,835	876,619
Other funds presented on balance sheet (trust and agency)	-	-	3,054,830	3,054,830	-	3,054,830
<b>Cash, cash equivalents and investments per balance sheet</b>	<u>\$ 321,610</u>	<u>\$ 234,716</u>	<u>\$ 3,215,556</u>	<u>\$ 3,771,882</u>	<u>\$ 652,638</u>	<u>\$ 4,424,520</u>
<b>Noncash investing, capital and financing activities:</b>						
Fixed asset portion of contributed capital	30	-	-	30	-	30

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Changes in Plan Net Assets**  
**Pension Trust Funds**  
**For the Fiscal Year Ended June 30, 2001**  
(amounts expressed in thousands)

	<b>Primary Government</b>	<b>Component Unit</b>	<b>Totals Reporting Entity (Memorandum Only)</b>
<b>Additions:</b>			
Member contributions	\$ 2,870	\$ 258,347	\$ 261,217
Employer contributions	12,714	947,873	960,587
Net investment income (loss)	331,358	(175,355)	156,003
Less investment expense	(332,943)	(110,833)	(443,776)
Operating transfers in - from primary government	-	30,000	30,000
Other	190	10,264	10,454
Total additions	14,189	960,296	974,485
<b>Deductions:</b>			
Pension benefits	16,619	945,910	962,529
Administrative	284	16,415	16,699
Total deductions	16,903	962,325	979,228
Net increase (decrease)	(2,714)	(2,029)	(4,743)
Net assets held in trust for pension benefits, July 1, as restated	309,609	15,876,557	16,186,166
<b>Net assets held in trust for pension benefits, June 30</b>	<b>\$ 306,895</b>	<b>\$ 15,874,528</b>	<b>\$ 16,181,423</b>

The notes to the financial statements are an integral part of this statement.

**State of Indiana**  
**Combined Statement of Changes in Fund Balances**  
**Discretely Presented Component Units - Colleges and Universities**  
**For the Fiscal Year Ended June 30, 2001**  
(amounts expressed in thousands)

	<b>Current funds</b>			
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total current funds</b>	<b>Loan funds</b>
<b>Revenue and other additions:</b>				
Current fund revenues	\$ 2,447,513	\$ 3,466	\$ 2,450,979	\$ -
Grants, gifts and contracts	3,992	691,936	695,928	121,269
Appropriations	104,889	93,607	198,496	-
Additions to plant and facilities	20	-	20	-
Retirement of indebtedness	-	-	-	-
Endowment and investment income	6,543	15,055	21,598	2,733
Bond proceeds	-	-	-	-
Sales and services	-	16,201	16,201	174
Auxiliary services	560,357	-	560,357	-
Other additions	618	14,718	15,336	1,025
Total revenues and other additions	3,123,932	834,983	3,958,915	125,201
<b>Expenditures and other deductions:</b>				
Current fund expenditures	2,475,423	102,404	2,577,827	-
Restricted fund expenditures	-	642,372	642,372	-
Indirect costs recovered	-	72,607	72,607	-
Direct student loans issued	-	-	-	117,845
Loan cancellations and administration	-	-	-	3,528
Administration	-	-	-	622
Expended for plant facilities and disposals	-	-	-	-
Bond issues and issuance costs, retirements	-	-	-	-
Debt service requirements	-	-	-	-
Depreciation and amortization	-	-	-	-
Other deductions	1,184	1,851	3,035	(401)
Auxiliary services	355,699	-	355,699	-
Total expenditures and deductions	2,832,306	819,234	3,651,540	121,594
Excess of revenues and other additions over (under) expenditures and other deductions	291,626	15,749	307,375	3,607
<b>Transfers from (to) other funds:</b>				
Mandatory transfers	(136,651)	7,423	(129,228)	38
Non-mandatory transfers	(107,361)	11,864	(95,497)	317
Total transfers from / to other funds	(244,012)	19,287	(224,725)	355
<b>Net increase (decrease) for the year</b>	47,614	35,036	82,650	3,962
<b>Fund balance, July 1, as restated</b>	561,461	147,930	709,391	59,790
<b>Fund balance, June 30</b>	<u>\$ 609,075</u>	<u>\$ 182,966</u>	<u>\$ 792,041</u>	<u>\$ 63,752</u>

The notes to the financial statements are an integral part of this statement.

Endowments and similar funds	Plant funds					Total colleges and universities
	Unexpended	Renewal and replacement	Retirement of indebtedness	Investment in plant	Total plant funds	
\$ -	\$ -	\$ -	\$ 274	\$ -	\$ 274	\$ 2,451,253
10,258	77,215	-	489	1,682	79,386	906,841
-	80,376	4,714	-	-	85,090	283,586
-	6,265	322	-	102,509	109,096	109,116
-	282	-	-	162,384	162,666	162,666
(26,335)	37,954	31,253	5,302	-	74,509	72,505
-	134,532	-	-	-	134,532	134,532
-	-	-	-	-	-	16,375
-	-	-	-	-	-	560,357
928	37,439	3,708	6,292	-	47,439	64,728
(15,149)	374,063	39,997	12,357	266,575	692,992	4,761,959
-	-	-	-	-	-	2,577,827
-	-	-	-	-	-	642,372
-	-	-	-	-	-	72,607
-	-	-	-	-	-	117,845
-	-	-	-	-	-	3,528
2,381	10,987	3,407	3,967	-	18,361	21,364
-	316,311	20,174	-	(228,355)	108,130	108,130
-	60,035	-	46,797	177,241	284,073	284,073
-	1,987	-	85,114	-	87,101	87,101
-	-	-	-	187,477	187,477	187,477
14,148	304	418	784	27,939	29,445	46,227
-	-	-	-	-	-	355,699
16,529	389,624	23,999	136,662	164,302	714,587	4,504,250
(31,678)	(15,561)	15,998	(124,305)	102,273	(21,595)	257,709
-	(2,032)	8,647	122,575	-	129,190	-
(13,660)	88,408	18,840	11,755	(10,163)	108,840	-
(13,660)	86,376	27,487	134,330	(10,163)	238,030	-
(45,338)	70,815	43,485	10,025	92,110	216,435	257,709
839,039	160,200	234,934	37,398	1,999,426	2,431,958	4,040,178
<u>\$ 793,701</u>	<u>\$ 231,015</u>	<u>\$ 278,419</u>	<u>\$ 47,423</u>	<u>\$ 2,091,536</u>	<u>\$ 2,648,393</u>	<u>\$ 4,297,887</u>

**State of Indiana**

**Combined Statement of Current Fund Revenues, Expenditures and Other Changes  
Discretely Presented Component Units - Colleges and Universities  
For the Fiscal Year Ended June 30, 2001**

(amounts expressed in thousands)

	Current funds		
	Unrestricted	Restricted	Total current funds
<b>Revenues:</b>			
Student tuition and fees	\$ 968,527	\$ 3,466	\$ 971,993
Governmental appropriations	1,209,054	65,359	1,274,413
Federal, state and local grants and contracts	53,861	565,763	619,624
Auxiliary services	515,126	-	515,126
Sales and services	131,056	16,200	147,256
Investment and endowment income	48,268	14,298	62,566
Other gifts and grants	2,330	85,038	87,368
Other revenue	195,070	15,610	210,680
Total revenues	3,123,292	765,734	3,889,026
<b>Expenditures and mandatory transfers:</b>			
Educational and General:			
Instruction and departmental research activities	1,176,016	81,378	1,257,394
Research	59,481	270,066	329,547
Academic support	264,481	27,945	292,426
Operation and maintenance of plant	245,615	430	246,045
Student Aid, Scholarships and fellowships	92,432	169,599	262,031
Public service	58,312	184,588	242,900
Student services	113,843	3,309	117,152
Administrative and institutional support	256,266	5,222	261,488
Other expenditures	20,942	1,124	22,066
Total educational and general	2,287,388	743,661	3,031,049
Auxiliary enterprises:			
Expenditures	543,731	221	543,952
Mandatory transfers	136,652	(7,423)	129,229
Total current fund expenditures and mandatory transfers	2,967,771	736,459	3,704,230
<b>Other transfers and additions (deductions):</b>			
Excess (deficit) of restricted receipts over transfers to revenues	-	(5,609)	(5,609)
Transfers from (to) other funds	(107,907)	11,370	(96,537)
Total other transfers and additions (deductions)	(107,907)	5,761	(102,146)
<b>Increase (decrease) in fund balance</b>	<b>\$ 47,614</b>	<b>\$ 35,036</b>	<b>\$ 82,650</b>

The notes to the financial statements are an integral part of this statement.



# STATE OF INDIANA

## Notes to the Financial Statements and Required Supplementary Information June 30, 2001

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**STATE OF INDIANA**  
**Notes to the Financial Statements**  
**June 30, 2001**  
**(schedule amounts are expressed in thousands )**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units (entities for which the government is considered to be financially accountable). Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in four separate columns, one column for the governmental fund type, one for proprietary fund types, one for pension trust fund types, and one for colleges and universities, in the combined financial statements. This is to emphasize that, as well as legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 2000 year end.

*Blended Component Units.*

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various governmental funds and an enterprise fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three governor appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana is composed of five members appointed by the governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

*Discretely Presented Component Units.*

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All component units, except colleges and universities and the pension trust funds, are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is governed by a board consisting of the Lieutenant Governor, the Treasurer of State, and seven members appointed by the Governor. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the Governor to purchase education loans in the secondary market. The Governor appointed the original Board of Directors. The Indiana Secondary Market for Education Loans provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. The unit is reported as a proprietary fund.

The Indiana Board for Public Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members

appointed by the Governor, provides insurance on public funds in excess of the \$100,000 Federal Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority consists of the Director of the Department of Financial Institutions, the Director of the Department of Commerce, the State Treasurer and four persons appointed by the governor. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority and the Indiana Bond Bank were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Effective July 1, 2000, the Public Employees Retirement Fund (PERF) became an independent body corporate and politic. PERF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The PERF board is composed of five trustees appointed by the governor. The board of trustees administers the following retirement funds: Public Employees Retirement Fund, Judges Retirement System Fund, Excise Police and Conservation Enforcement Officers' Retirement Fund, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Fund, the Legislators'

Retirement System Defined Contribution Fund, and the Prosecuting Attorneys' Retirement Fund. For more information on PERF see Note IV (J) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation in the Discretely Presented Component Units' financial statements.

Effective July 1, 2000, the Teachers Retirement Fund (TRF) became an independent body corporate and politic. TRF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The TRF board is composed of five trustees appointed by the governor. For more information on TRF see Note IV (K) Employee Retirement Systems and Plans.

The Public Employees Retirement Fund and the Teachers Retirement Fund were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the governor and by election of the alumni of the respective universities.

Purdue University and Indiana University were determined to be significant for note disclosure purposes involving the colleges and universities.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance Authority  
One North Capital Suite 320  
Indianapolis, IN 46204

Recreational Development  
Commission  
Government Center South, W256  
402 W. Washington Street  
Indianapolis, IN 46204

State Lottery Commission of Indiana  
Pan Am Plaza  
201 S. Capitol, Suite 1100  
Indianapolis, IN 46225

State Office Building Commission  
Government Center South, W478  
402 W. Washington Street  
Indianapolis, IN 46204

Indiana Development Finance  
Authority  
One North Capitol, Suite 320  
Indianapolis, IN 46204-2226

Secondary Market for Education Loans, Inc.  
8425 Woodfield Crossing Boulevard  
Suite 401  
Indianapolis, IN 46204

Board for Public Depositories  
101 W. Washington St., Suite 1301E  
Indianapolis, IN 46204

Indiana Bond Bank  
2980 Market Tower  
10 West Market St.  
Indianapolis, IN 46204

Indiana Housing Finance Authority  
115 West Washington Street  
Suite 1350, South Tower  
Indianapolis, IN 46204

Accounting Services  
1062 Freehafer Hall  
Purdue University  
West Lafayette, IN 47907-1062

Richard W. Schmidt  
Vice President – Business Affairs  
University of Southern Indiana  
8600 University Boulevard  
Evansville, IN 47712

Office of the Vice President  
and Chief Financial Officer  
Bryan Hall, Rm. 204  
Indiana University  
Bloomington, IN 47405-1202

Mark Husk  
Director of Budgeting and Accounting  
Indiana Vocational Technical  
College  
Indianapolis, IN 46206-1763

Phillip Rath  
Vice President-Financial  
Services  
Vincennes University  
1002 North 1st Street  
Vincennes, IN 47591

William A. McCune, Controller  
Administration Bldg., 103A  
2600 University Avenue  
Ball State University  
Muncie, IN 47305

Office of the Vice President  
for Planning and Budgets  
Parsons Hall, RM. 223  
Indiana State University  
Terre Haute, IN 47809

State of Indiana  
Public Employees' Retirement Fund  
143 West Market Street  
Indianapolis, IN 46204

Indiana State Teachers' Retirement Fund  
150 West Market Street, Suite 300  
Indianapolis, IN 46204

## **B. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

**Governmental funds** are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmaturing interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Revenue relating to nonexchange transactions are susceptible to accrual when all recognition criteria have been met and the resources are available. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources

of the general government, except those required to be accounted for in another fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes (not expendable trusts or major capital projects).

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *capital projects* funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

**Proprietary funds** are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued before November 30, 1989 and those issued after which do not contradict any previously issued GASB pronouncement in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

*Enterprise funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Internal service funds* account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

**Fiduciary funds** account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others.

The *expendable trust funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The *nonexpendable trust funds* and *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. The pension trust fund accounts for the assets of the government's employees pension plan.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

**Account Groups.** The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

## **C. Assets, Liabilities and Equity**

### **1. Deposits, Investments and Securities Lending**

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost. Fair value is determined by quoted market prices. In addition, the pension trust funds and securities lending transactions are stated at fair value.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on

the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines. Investments which are authorized for the State Teacher's Retirement Fund include: U.S. Treasury and Agency obligations, corporate bonds/notes, repurchase agreements, mortgage securities, commercial paper, common stock, international equity, and bankers' acceptances. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations,

common stocks, repurchase agreements, mortgage securities, and bankers acceptances. The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, corporate bonds/notes, common stocks, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as a special revenue fund.

## **2. Receivables and Payables**

Assets relating to derived tax revenues, including individual gross income taxes, corporation income taxes, sales taxes, motor fuel and motor carrier surcharge taxes, and alcoholic beverage taxes, are recognized in the period when the underlying exchange transaction has occurred or when the resources are received, whichever is first. Assets relating to imposed nonexchange revenues are recognized in the period when an enforceable legal claim has arisen or the resources are received, whichever is first. Government mandated and voluntary nonexchange transactions, including federal government mandates on the state, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met. Other assets and liabilities are recognized when measurable and available.

The State of Indiana does not collect property taxes, which are collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

## **3. Interfund Transactions**

The State has the following types of interfund transactions:

Quasi-external Transactions - Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Residual Equity Transfers - Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Operating Transfers - Legally authorized transfers other than residual equity transfers are reported as operating transfers.

The types of assets and liabilities resulting from these transactions are:

Advances from / to - These are balances arising from the long-term portion of interfund transactions, including loans.

Interfund receivables / payables - These are balances arising from the short-term portion of interfund transactions.

Due from / to - These are balances arising in connection with quasi-external transactions or reimbursements. Balances relating to discretely presented component units are presented as 'Due from / to component units.'

## **4. Inventories and Prepaid Items**

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

## **5. Restricted Assets**

Certain assets of the following proprietary funds are classified as restricted assets because their use is completely restricted by bond indentures, contracts or statute.

*State Office Building Commission* - designated for construction projects or the liquidation of revenue bonds payable.

*Recreational Development Commission* - designated for the costs of expanding and, renovating, and improving recreational facilities at Indiana State parks.

*State Lottery Commission* - reserved for the prize pool of the Multi-State Lottery Association.

*Toll Roads* - held for future debt service, transportation improvements and construction.

*Indiana Housing Finance Authority* - restricted or pledged as provided by bond resolutions and indentures of the trust agreements.

*Indiana Bond Bank* - restricted to repayment of bonds and notes payable.

## 6. Fixed Assets

Fixed assets used in governmental fund types with a cost of \$5,000 or greater are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, highway land and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the asset are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary and pension trust funds are recorded at cost or estimated historical cost. Property, plant and equipment donated to proprietary funds are recorded at their estimated fair value at the date of donation. Capital grants to the Inns & Concessions (grants restricted by the grantor for the acquisition and/or construction of fixed assets) are recorded as contributed capital; since these contributions are from the primary government, depreciation expense for these assets is included with depreciation of other assets. Contributed capital is reduced by the cost of assets returned to the contributor.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and similar trust funds using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Improvements other than buildings	10-20
Furniture, machinery and equipment	3-10
Software	3
Motor Pool Vehicles	10 ¢ / mile

## 7. Compensated Absences

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

## 8. Long-Term Obligations

Long-term debt of governmental funds is reported at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

## 9. Fund Equity

Reservations of fund balance represent those portions of fund balances that are legally segregated for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

*Reserve for Tuition Support* - established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

*Reserve for Encumbrances* - established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

*Reserve for Special Purposes* – established to recognize legal limitations that specify the purpose or purposes for which resources derived from government-mandated and voluntary nonexchange transactions are to be used.

*Reserve for Prepaid Items* – established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

*Reserve for Advances* - established to recognize long-term loans and advances issued to other funds within this government and therefore not currently available for expenditure.

*Reserve for Intergovernmental Loans* - established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other

governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

*Reserve for Debt Service, Special Purposes*-- established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component.

Designations of fund balance represent tentative management plans that are subject to change.

The proprietary funds' contributed capital represent equity acquired through capital grants and capital contributions from other funds.

#### **10. Memorandum Only - Total Columns**

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.



## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Information

Legislation requires that the Governor submit a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes various special revenue funds that are not subject to appropriation pursuant to state law. Funds excluded are the Pension Relief Fund, the Transportation Finance Authority - Highway Revenue Bonds, and the State Revolving Fund. In addition there are various "Other Special Revenue Funds" excluded which are the Public Safety Death Benefit Fund, the Armory Board, the Recreation funds at state institutions and mental facilities, and the Transportation Finance Authority - Airport Facilities and Aviation Technology Funds. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of

State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted non-recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. These actions are considered supplemental appropriations, therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

## B. Budget/GAAP Reconciliation

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over (under) expenditures and other financing uses (budgetary basis)	\$ (1,050,778)	\$ 190,972
Adjustments necessary to convert the results of operations on a budgetary basis to a GAAP basis are:		
Revenues are recorded when earned (GAAP) as opposed to when cash is received (budgetary)	(43,543)	(8,396)
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	5,114	66,029
Funds not subject to legally adopted budget	-	154,622
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP basis)	<u>\$ (1,089,207)</u>	<u>\$ 403,227</u>

## C. Deficit Fund Balance/Retained Earnings

At June 30, 2001, various funds had deficit fund balance/retained earnings caused by temporary cash overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as an interfund payable

to the general fund. An exception to this is the Bureau of Motor Vehicles Commission fund which has a deficit equity balance of \$66.1 million. \$63.3 million of this was caused by long-term expenditures in excess of fund revenues. The funds used to cover the \$63.3 million deficit are reported as an Advance from the Motor Vehicle Highway Fund.

<u>Fund</u>	<u>Overdraft from pooled cash</u>	<u>Accrual deficits</u>
<b>Special revenue funds:</b>		
County Welfare Administration	\$ (716)	\$ (9,597)
Medicaid Assistance	(5,252)	(29,725)
Federal Food Stamp Program	(1,363)	(199)
Property Tax Replacement Fund	-	(504,184)
<b>Enterprise funds:</b>		
Inns and Concessions	-	(104)
<b>Internal service funds:</b>		
Recreational Development Commission	-	(333)
State Police Benefit Fund	-	(17,599)
<b>Expendable trust funds:</b>		
Abandoned Property Fund	-	(8,238)

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### A. Deposits, Investments and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or an agent in the State's or unit's name. (2) Uninsured

and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's or unit's name.

Blended component units that are included in the financial statements as described in Section 1(A) account for \$453.8 million of the primary government's total investments included in these totals.

<b>Primary Government</b>				
	Category			Fair Value
	1	2	3	
Commercial paper				
Not on securities loan	\$ 5,923	\$ -	\$ 515	\$ 6,438
Corporate debt/equity securities				
Not on securities loan	26,882	-	22,545	49,427
Repurchase agreements				
Not on securities loan	7,771	263,024	-	270,795
US Treasury & agency obligations				
Not on securities loan	253,584	635,900	441,651	1,331,135
Mortgage securities				
Not on securities loan	<u>136</u>	<u>-</u>	<u>-</u>	<u>136</u>
Totals	<u>\$ 294,296</u>	<u>\$ 898,924</u>	<u>\$ 464,711</u>	1,657,931
Investments - not categorized				
Investments held by broker-dealers under securities loans				
US Treasury & agency obligations				2,852,039
Securities lending S-T cash collateral investment pool				2,916,052
Mutual funds				1,040,992
Annuity/investment contracts				<u>537,951</u>
Total primary government				<u>\$ 9,004,965</u>

The categories of investments for the Significant Discretely Presented Component Units is as follows:

<b>Significant Discretely Presented Component Units</b>				
	Category			Fair Value
	1	2	3	
Commercial paper				
Not on securities loan	\$ 14,480	\$ 381,582	\$ 90,901	\$ 486,963
Corporate debt/equity securities				
Not on securities loan	11,069,118	3,287	822,594	11,894,999
On securities loan	105	111,988	104,472	216,565
Foreign bonds				
Not on securities loan	119,957	-	-	119,957
Repurchase agreements				
Not on securities loan	25,000	76,780	428,851	530,631
On securities loan	45,683	477,140	-	522,823
US Treasury & agency obligations				
Not on securities loan	1,920,023	17,707	24,992	1,962,722
On securities loan	1,866	128,402	139,748	270,016
Mortgage securities				
Not on securities loan	<u>1,142,335</u>	<u>2,403</u>	<u>-</u>	<u>1,144,738</u>
Totals	<u>\$ 14,338,567</u>	<u>\$ 1,199,289</u>	<u>\$ 1,611,558</u>	17,149,414
Investments - not categorized				
Guaranteed investment contracts and other				192,059
Investments held by broker-dealers under securities loans				
Equity securities				703,871
Corporate bonds				165,132
US Treasury & agency obligations				1,279,834
Foreign bonds				14,224
Mortgage securities				4,054
Securities lending S-T cash collateral investment pool				28,177
Securities lending S-T non-cash collateral investment pool				2,044
Mutual funds				<u>83,036</u>
Total significant discretely presented component units				<u>\$ 19,621,845</u>

State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees Retirement Fund and the State Teachers Retirement Fund (discretely presented component units), which

allow no more than 40% be lent at one time. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to a borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturity's generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

## B. Interfund Transactions

The composition of interfund balances as of June 30, 2001 is as follows:

<b>Due From and Due To Other Funds</b>					
	Due from other funds	Due to other funds		Due from other funds	Due to other funds
General fund:			Internal service funds:		
Internal service funds:			General fund	3,305	-
Institutional Industries	\$ -	\$ 1,814	Special revenue funds:		
Administrative Services Revolving Fund	-	1,491	County welfare administration	693	-
Total general fund	-	3,305	Motor Vehicle Highway Fund	918	-
Special revenue funds:			State and Federal Welfare Assistance	7	-
Debt service funds:			Bureau of Motor Vehicles Commission	35	-
Transportation Finance Authority:			Health and environmental programs	56	-
Aviation Technology bonds	-	318	State Highway Department	244	-
Airport Facilities bonds	-	3,132	Tobacco Settlement Fund	3	-
Internal service funds:			Other	1,850	-
Institutional Industries	-	722	Capital projects funds:		
Administrative Services Revolving Fund	-	3,084	Build Indiana Fund	2	-
Total special revenue funds	-	7,256	Other	3	-
Capital projects funds:			Expendable trust funds:		
Internal service funds:			Abandoned Property Fund	-	-
Institutional Industries	-	2	Internal service funds:		
Administrative Services Revolving Fund	-	3	Institutional Industries	-	5
Total capital projects funds	-	5	Administrative Services Revolving Fund	5	-
Debt service funds:			Total internal service funds	7,121	5
Special revenue funds:			<b>Total due from / to</b>	<b>\$ 10,571</b>	<b>\$ 10,571</b>
Other	3,450	-			
Total debt service funds	3,450	-			

<b>Component Units</b>					
	Due from primary government	Due to component unit		Due from primary government	Due to component unit
Special revenue funds:			Discretely presented component units proprietary:		
Discretely presented component units proprietary:			Special revenue funds:		
Indiana Bond Bank	\$ -	\$ 638,853	State Revolving Fund	638,853	-
Discretely presented component units pension trust:			Total discretely presented component units proprietary	638,853	-
Public Employees Retirement Fund	-	934	Discretely presented component units pension trust:		
Total special revenue funds	-	639,787	Special revenue funds:		
Enterprise funds:			Pension Relief Fund	858	-
Discretely presented component units pension trust:			Other	76	-
State Teachers' Retirement Fund	-	7,500	Enterprise funds:		
Total enterprise funds	-	7,500	State Lottery Commission	7,500	-
Internal service funds:			Internal service funds:		
Discretely presented component units pension trust:			State Employee Death Benefit Fund	78	-
Public Employees Retirement Fund	-	78	Total discretely presented component units pension trust	8,512	-
Total internal service funds	-	78	<b>Total due from / to</b>	<b>\$ 647,365</b>	<b>\$ 647,365</b>

The composition of interfund balances as of June 30, 2001 is as follows: (continued)

<b>Within Component Units</b>		
	Due from component unit	Due to component unit
Discretely presented component units pension trust:		
Pension trust		
Public Employees' Retirement Fund	\$ 5,557	\$ 5,405
State Teachers' Retirement Fund	<u>5,405</u>	<u>5,557</u>
Total discretely presented component units pension trust	<u>10,962</u>	<u>10,962</u>
<b>Total due from / to</b>	<b><u>\$ 10,962</u></b>	<b><u>\$ 10,962</u></b>

<b>Advances To and Advances From Other Funds</b>					
	Advances to other funds	Advances from other funds		Advances to other funds	Advances from other funds
General fund:			Enterprise funds:		
Special revenue funds:			Internal service funds:		
Other	<u>\$ 2,408</u>	<u>\$ -</u>	Recreational Development Commission	<u>-</u>	<u>300</u>
Total general fund	<u>2,408</u>	<u>-</u>	Total enterprise funds	<u>-</u>	<u>300</u>
Special revenue funds:			Internal service funds:		
General fund	-	2,408	Special revenue funds:		
Special revenue funds:			Other	-	500
Motor Vehicle Highway Fund	63,277	-	Enterprise funds:		
Bureau of Motor Vehicles Commission	-	63,277	Inns and concessions	<u>300</u>	<u>-</u>
Other	698	698	Total internal service funds	<u>300</u>	<u>500</u>
Internal service funds:					
Recreational Development Commission	<u>500</u>	<u>-</u>			
Total special revenue funds	<u>64,475</u>	<u>66,383</u>	<b>Total advances</b>	<b><u>\$ 67,183</u></b>	<b><u>\$ 67,183</u></b>

<b>Interfund receivables and payables</b>					
	Interfund receivable	Interfund payable		Interfund receivable	Interfund payable
General fund:			Capital projects funds:		
Special revenue funds:			Special revenue funds:		
County Welfare Administration	\$ 716	\$ -	State Highway Department	-	8,596
Medicaid Assistance	5,252	-	Enterprise funds:		
Federal Food Stamp Program	<u>1,363</u>	<u>-</u>	State Lottery Commission	<u>21,385</u>	<u>-</u>
Total general fund	<u>7,331</u>	<u>-</u>	Total capital projects funds	<u>21,385</u>	<u>8,596</u>
Special revenue funds:			Enterprise funds:		
General fund	-	7,331	Special revenue funds:		
Capital projects funds:			Pension Relief Fund	-	7,500
Other	8,596	-	Capital projects funds:		
Enterprise funds:			Build Indiana Fund	<u>-</u>	<u>21,385</u>
State Lottery Commission	<u>7,500</u>	<u>-</u>	Total enterprise funds	<u>-</u>	<u>28,885</u>
Total special revenue funds	<u>16,096</u>	<u>7,331</u>	<b>Total interfund receivable / payable</b>	<b><u>\$ 44,812</u></b>	<b><u>\$ 44,812</u></b>

A summary of interfund operating transfers for the year ended June 30, 2001 is as follows:

	Operating transfers in	Operating transfers (out)	Operating transfers in - from primary government	Operating transfers (out) - to primary government	Operating transfers in - from component units	Operating transfers (out) - to component units	Net transfers
<b>Governmental funds:</b>							
General fund	\$ 2,102,277	\$ (3,254,432)	\$ -	\$ -	\$ -	\$ (7,169)	\$ (1,159,324)
Special revenue funds	4,816,655	(3,583,741)	-	-	-	-	1,232,914
Debt service funds	63,166	-	-	-	-	-	63,166
Capital projects funds	368,363	(408,550)	-	-	-	(16,205)	(56,392)
<b>Proprietary funds:</b>							
Enterprise funds	-	(125,636)	-	-	-	(30,000)	(155,636)
Internal service funds	20,674	(16,690)	-	-	-	-	3,984
<b>Trust and agency funds:</b>							
Expendable trust and agency	1,440	(39,640)	-	-	2,328	-	(35,872)
Nonexpendable trust	56,251	(137)	-	-	-	-	56,114
<b>Discretely presented component units:</b>							
Governmental	-	-	23,374	-	-	-	23,374
Proprietary	-	-	-	(2,328)	-	-	(2,328)
Pension trust	-	-	30,000	-	-	-	30,000
	<u>\$ 7,428,826</u>	<u>\$ (7,428,826)</u>	<u>\$ 53,374</u>	<u>\$ (2,328)</u>	<u>\$ 2,328</u>	<u>\$ (53,374)</u>	<u>\$ -</u>

### C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General fund	Special revenue funds	Capital projects funds	Expendable trust	Total
Income taxes	\$ 730,708	\$ 5,095	\$ -	\$ -	\$ 735,803
Sales taxes	322,803	225,449	-	-	548,252
Fuel taxes	-	80,910	-	-	80,910
Gaming taxes	-	758	-	-	758
Unemployment - employers' contributions	-	-	-	16,006	16,006
Inheritance taxes	38,628	-	-	-	38,628
Alcohol and tobacco taxes	6,609	66,915	1,623	-	75,147
Insurance taxes	1,250	-	-	-	1,250
Financial institutions taxes	-	36,058	-	-	36,058
Other taxes	165	1,278	-	-	1,443
Total taxes receivable	1,100,163	416,463	1,623	16,006	1,534,255
Less allowance for uncollectible accounts	(56,851)	(23,623)	(22)	-	(80,496)
Net taxes receivable	<u>\$ 1,043,312</u>	<u>\$ 392,840</u>	<u>\$ 1,601</u>	<u>\$ 16,006</u>	<u>\$ 1,453,759</u>
Tax refunds payable	<u>\$ 35,194</u>	<u>\$ 2,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,999</u>

## D. Fixed Assets

Activity in the general fixed assets account group for the State for the year ended June 30, 2001, was as follows. Figures include assets with an individual cost of \$5,000 or more. Infrastructure assets are not included.

	<b>Balance, July 1, As restated</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30</b>
Land	\$ 128,843	\$ 3,392	\$ 197	\$ 132,038
Buildings and improvements	1,157,061	35,403	60,928	1,131,536
Furniture, machinery, and equipment	395,935	34,711	21,399	409,247
<b>Total general fixed assets</b>	<b>\$ 1,681,839</b>	<b>\$ 73,506</b>	<b>\$ 82,524</b>	<b>\$ 1,672,821</b>

The following is a summary of proprietary fund type fixed assets at June 30, 2001. Infrastructure assets are included as they are presented on the respective balance sheets.

	<b>Enterprise funds</b>	<b>Internal service funds</b>
Buildings, land and improvements	\$ 116,448	\$ 675,909
Infrastructure	471,700	-
Furniture, machinery, and equipment	47,599	41,223
less: accumulated depreciation	(418,432)	(149,143)
Construction in progress	34,694	201,271
<b>Total fixed assets</b>	<b>\$ 252,009</b>	<b>\$ 769,260</b>

Fixed assets of the significant discretely presented component units include \$2,617 million for Indiana University, less accumulated depreciation of \$1,123 million; \$1,555 million for Purdue University, less accumulated depreciation of \$694 million.

## E. Leases

### *Operating Leases*

The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of \$5,000 or more were \$39.6 million for the year ended June 30, 2001. A table of

future minimum lease payments (excluding executory costs) is presented below.

### *Capital Leases*

The State has entered into various lease agreements with aggregate payments of \$5,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group. The related lease obligations are reported in the general long-term debt account group.



The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2001 and the assets acquired through capital lease during the fiscal year were as follows:

<b><u>Future minimum lease payments</u></b>				
<b><u>Year ending June 30,</u></b>			<b><u>Capital leases</u></b>	
			<b><u>General Long-Term Debt Account Group</u></b>	<b><u>Proprietary funds</u></b>
		<b><u>Operating leases</u></b>		
2002	\$	38,154	\$ 2,607	\$ 71
2003		32,844	2,236	62
2004		25,776	1,590	16
2005		19,350	1,231	-
2006		14,737	767	-
Thereafter		<u>76,476</u>	<u>-</u>	<u>-</u>
<b>Total minimum lease payments (excluding executory costs)</b>		<b><u>\$ 207,337</u></b>	<b>8,431</b>	<b>149</b>
Less:				
Amount representing interest			<u>(920)</u>	<u>(9)</u>
Present value of future minimum lease payments			<b><u>\$ 7,511</u></b>	<b><u>\$ 140</u></b>
<b><u>Assets acquired through capital lease</u></b>				
Machinery and equipment			\$ 11,662	\$ 373
less accumulated depreciation			<u>-</u>	<u>(234)</u>
			<b><u>\$ 11,662</u></b>	<b><u>\$ 139</u></b>

The Indiana Housing Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total \$1.4 million. The Indiana Development Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total \$.5 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling \$40.0 million, of which \$10.6 million represents interest; Indiana University's liability for capital leases is \$5.8 million, of which \$.5 million represents interest.

Indiana University has future obligations under operating leases of \$9.0 million.

## F. Long-Term Debt

Long-term debt of the general long-term debt account group consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Other long term obligations of the general long term debt account group include capital lease obligations of governmental funds as presented in Section III(E), net pension obligations, and compensated absence obligations.

Long-term debt of the proprietary funds consists of revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, and the Indiana Transportation Finance Authority Toll Roads. It also includes the non-current portion of prize liability accrued by the Indiana State Lottery Commission. These entities have been established by statute as corporate and politic units

with the separate legal authority to finance certain essential governmental functions.

Long-term debt of the significant discretely presented component units consists of bonds issued or backed by the Indiana Development Finance Authority, the Indiana Housing Finance Authority, the Indiana Bond Bank, Indiana University, and Purdue University. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

#### *General Long-Term Debt Account Group:*

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds - In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On December 11, 1996, the Indiana Transportation Finance Authority issued Highway Refunding Bonds Series 1996B in the amount of \$27.1 million with interest rates from 4.50% to 6%. The refunding debt was used to refund the Series 1992A bonds. A portion of the proceeds was deposited in an escrow fund. As of June 30, 2001, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was \$24.8 million.

On November 15, 2000, the Indiana Transportation Finance Authority issued Highway Revenue Bonds Series 2000 in the par amount of \$269.5 million with interest rates from 4.50% to 5.75%. This included \$21.9 million of refunding debt and \$247.6 million of new money debt. The refunding debt was used to refund in advance of their stated maturity dates the Series 1990A bonds maturing on and after June 1, 2006 and the Series 1993A bonds maturing on and

after June 1, 2006. A portion of the proceeds, was deposited in an escrow fund. The \$247.6 million new money debt is being used for the payment of construction costs for the Series 2000 projects. As of June 30, 2001, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was \$9.7 million for Series 1990A and \$9.2 million for Series 1993A.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds - In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of \$201.3 million. Additionally, Series 1995A parity bonds in the amount of \$29.7 million were issued May 15, 1995, and Series 1996A refunding bonds of \$138 million were issued in December, 1996 to partially refund in advance principal under series 1992A. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, the Authority issued Airport Facilities Lease Revenue Refund Bonds Series 1996A in the amount of \$137.7 million with interest rates from 4.5% to 6%. A portion of the proceeds was deposited in an escrow fund to refund a portion of the 1992 issue. The amount of defeased debt still outstanding but removed from the General Long Term Debt Account Group at June 30, 2001 was \$127 million.

Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds, Series A - On November 1, 1992, the Indiana Transportation Finance Authority issued Aviation Technology Center Lease Bonds - Series A, in the principal amount of \$11.6 million. These bonds were issued to finance the costs of construction and equipping a new aviation technology center at Indianapolis International Airport. These bonds are payable from lease revenues as may be appropriated from the Indiana General Assembly for that purpose.

Changes in Long-Term Liabilities: During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group.

	Balance, July 1, as Restated	Accretions and Additions	Reductions	Balance, June 30
Compensated absences	\$ 109,340	\$ 64,632	\$ 59,977	\$ 113,995
Revenue bond debt	705,016	253,937	19,285	939,668
Net pension obligations	430	423	275	578
Capital leases	<u>4,412</u>	<u>4,817</u>	<u>1,718</u>	<u>7,511</u>
<b>Totals</b>	<u>\$ 819,198</u>	<u>\$ 323,809</u>	<u>\$ 81,255</u>	<u>\$ 1,061,752</u>

*Proprietary Funds:*

Indiana State Office Building Commission - The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

On September 8, 1993, the Commission issued \$178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. On January 1, 1998, Facilities Revenue Refinance Bonds Series 1998A in the amount of \$93 million with interest rates from 3.9% to 5.125% were issued to fully refund in advance of their stated maturity dates the 1991 Series Bonds. The net proceeds were used to purchase U.S Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service for the refunded bonds. At June 30, 2001, the Commission had a total of \$257.9 million defeased bonds outstanding.

On June 1, 2000 the Commission issued the Series 2000B Bonds to refund on a current basis a portion of the Commissions' outstanding Series 1990D Bonds. The net proceeds of \$42.7 million were used to purchase U.S. Government securities. These securities, plus \$6.6 million of restricted assets released, were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2000 refunding on a current basis a portion of the Series 1990D Bonds. The reacquisition price of these bonds exceeded their net carrying value resulting in an accounting loss of \$1.2 million. Pursuant to GASB Statement 23, the Commission elected to capitalize the loss as a reduction of the related revenue bonds payable. The amount capitalized is amortized, using the effective interest method, over the shorter of the remaining life of the refunded or new bonds, which is equal to thirteen years. The Series 2000B Bonds were issued with interest rates that fluctuate based on the market rate. Accordingly, while the Commission believes an economic gain and lower cash flow requirements will result from the refunding, the amount of such benefits, if any, is not presently determinable because the interest rates fluctuate based on the market rate.

On April 10, 2001, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998 which provides up to \$250 million of tax exempt commercial paper to provide interim financing for the acquisition and construction of various facilities. Outstanding borrowings under this facility at June 30, 2001 were \$221.9 million and bears interest at the London Interbank Offered Rate (LIBOR) plus .25% or 70% of the bank's prime lending rate. The interest rates in effect at June 30, 2001 were between 2.25% and 4.35%. Accrued interest at June 30, 2001 was \$1.3 million. The credit facility expires February 1, 2004. Upon completion of construction on the various facilities, the Commission plans to issue bonds to fund the outstanding balance on the Hoosier Notes. Subsequent to June 30, 2001, the Commission has made additional borrowings of \$21 million pursuant to this agreement.

Recreational Development Commission - The Recreational Development Commission was created in 1973 pursuant to I.C. 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of five members. The Treasurer of State and the Director of the Department of Natural Resources (DNR) are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued \$6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

Indiana Transportation Finance Authority – East-West Toll Roads – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the state. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued \$256.9 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 for the refunding of the outstanding portion of the Indiana Toll Commission East-West Toll Road Revenue Bonds, 1980 Series. At June 30, 2001, the principal amount of the Series 1980 bonds, which have been defeased in substance, was \$108.0 million.

Revenue bonds outstanding at June 30, 2001 (less unamortized discount of \$16.7 million) are as follows.

	<u>Interest rates</u>	<u>Amount</u>
<b>General Long-Term Debt Account Group</b>		
ITFA Highway Revenue Bonds	4.25% - 6.25%	\$ 712,553
ITFA Airport Facilities Bonds	4.50% - 6.50%	217,415
ITFA Aviation Technology Center Bonds	5.65% - 6.50%	9,700
		<u>\$ 939,668</u>
<b>Proprietary funds:</b>		
Indiana State Office Building Commission	2.75% - 10.00%	\$ 596,817
Recreational Development Commission	3.60% - 6.13%	23,808
ITFA Toll Roads	3.90% - 9.50%	234,235
		<u>\$ 854,860</u>

State Lottery Commission Accrued Prize Liability - Accrued prize liability includes an estimate of unclaimed scratch-off and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2001, as well as installment amounts payable to past scratch-off, on-line and game show winners. Installment prizes

payable are recorded at a discount based on interest rates that range from approximately 5% to 8% and reflect interest earned by investments held to fund related liabilities. At June 30, 2001, the accrued prize liability was \$79.5 million including \$35.2 million in current prize liability and \$44.3 million in long-term prize liability.

Revenue bond debt service and accrued prize liability requirements to maturity, including \$1,179.6 million of interest, are as follows:

<b>Fiscal year ending June 30,</b>	<b>General Long- Term Debt Account Group</b>	<b>Proprietary funds</b>	<b>Total</b>
2002	\$ 73,546	\$ 84,737	\$ 158,283
2003	76,360	95,245	171,605
2004	76,624	94,700	171,324
2005	76,856	93,624	170,480
2006	78,095	92,865	170,960
Thereafter	<u>1,207,408</u>	<u>1,019,466</u>	<u>2,226,874</u>
Total	<u>\$ 1,588,889</u>	<u>\$ 1,480,637</u>	<u>\$ 3,069,526</u>

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Development Finance Authority - The Indiana Development Finance Authority (IDFA) was established by the General Assembly, in 1990, as a body corporate and politic to independently exercise essential public functions. IDFA's primary purpose is to provide job-creating industrial development projects with access to capital markets where adequate financing is not otherwise available.

IDFA is a party to a reimbursement agreement with Qualitech Steel Corporations (Qualitech) and a bank relating to the \$33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds Series 1996. Qualitech filed a petition for relief under Chapter 11 of the Bankruptcy Code. As a result, IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling \$27.5. Debt service reserve funds aggregating \$3.6 million are currently held in trust and may be available to reduce the contingent obligation.

For more information, see Note IV E. Contingencies and Commitments – Loss from Reimbursement Agreement.

Indiana Housing Finance Authority - In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable

solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of \$1,481 million with interest rates ranging from 3.90% to 9.375%. The total outstanding debt associated with these bond issues as of December 31, 2000 was \$900 million.

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A. The principal amount of this loan totaled \$6.2 million as of December 31, 2000.

During 1999, GNMA Mortgage Program Fund redeemed the remaining bonds on the 1989 Series A, through an optional redemption, at a premium of 103%, resulting in a premium paid of \$428,100. This transaction resulted in deferred debt issuance cost of \$162,469.

During 2000 the Single Family Mortgage Program Fund issued 2000 Bond Series with a face value of \$208.6 million and interest rates varying from 4.60% to 7.85%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner occupied housing.

The Indiana Housing Finance Authority borrowed \$6.1 million during 2000 against its line of credit. The proceeds from this borrowing were at an interest rate of 5.5022%

During 2000 the GNMA Mortgage Program Fund redeemed the remaining bonds on the 1990 Series B, 2990 Series C, 1990 Series D, and 1990 Series F, through optional redemptions at a premium of 103% resulting in a premium paid of \$1,003,900. These

transactions resulted in extraordinary deferred debt issuance costs of \$180,954.

Indiana Bond Bank - The Bond Bank is an instrumentality of the State of Indiana but is not a state agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of the Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor. The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2001 was \$1,378 million with interest rates ranging from 2.8% to 7.125%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to \$26.8 million.

In January 2000, the Bond Bank issued its Special Program Series 2000A Refunding Bonds in the amount of \$32,860,000. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1985B, 1986B, 1986C, 1986E, 1987A, 1989C, 1990A, 1990B, and Special Loan Program Bonds Series 1988A, 1988B, 1988C, and 1989A in entirety. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying amount of the defeased debt resulted in a deferred cost on defeasance of \$1.2 million, which is being amortized over the life of the Special Program Series 2000A Refunding Bonds. However, the issuance of the Special Program Series 2000A Refunding Bonds will reduce the Bond Bank's aggregate debt service payments by \$17.7 million over the 20-year period extending through February, 2020, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$4.9 million.

Special Program Bonds Series 1985A, 1989A, 1991B, 1992A, and 1992B are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately \$67 million at June 30, 2001.

In August 2000, the Bond Bank issued Advance Funding Program Notes Series 2000B with a face amount of \$2.4 million and an interest rate of 4.5%.

In December 2000 the Bond Bank issued State Revolving Bonds Series 2000B with a face amount of \$100 million at interest rates varying from 5.25% to

5.35%. Also in December 2000 the Bond Bank issued State Revolving Bonds Series 2000B Taxable with a face amount of \$5.6 million and an interest rate of 6.0%.

In January 2001, the Bond Bank issued Advanced Funding Interim Notes with a face amount of \$87 million and an interest rate of 3.85%. This money goes out to all participants who want to receive their funds ahead of the Advance Funding Program Notes which are issued in February. These Advanced Funding Interim Notes are repaid when the Advance Funding Program Notes are issued.

In January 2001, the Bond Bank issued its Special Program Series 2001A Refunding Bonds in the amount of \$20,840,000 at interest rates varying from 5.0% to 5.5%. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1992A and 1992B in entirety and retire the Special Program Bonds Series 1991C and 1991F. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying value of the defeased debt resulted in a deferred cost on the defeased debt of \$978,819, which is being amortized over the life of the Special Program Series 2001A Refunding Bonds. However, the issuance of the Special Program Series 2001A Refunding bonds will reduce the Bond Bank's aggregate debt service payments by \$31.5 million over the 21 year period extending through February 2022, resulting in an economic gain of approximately \$15.7 million.

In January 2001 the Bond Bank issued Special Program Bonds Series 2001B with a face amount of \$9.5 million at interest rates varying from 3.35% to 5.5%.

In February 2001, the Bond Bank issued Advance Funding Program Notes Series 2001A with a face amount of \$370.8 million and an interest rate of 4.0%.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital, academic facilities and utility systems.

#### Indiana University

The outstanding long-term bonded indebtedness at June 30, 2001 was \$554.1 million with interest rates ranging from 4.0% to 6.6%.

On August 23, 2000, the university issued Indiana University Tax-Exempt Commercial Paper Notes Series 2000 (TECP 2000) in the amount of \$25.3 million. The issue was able to provide interim

financing for portions of the Science and Campus Services Building on the Kokomo campus and the Student Activities Center on the South Bend campus. The interest rate was 4.25% at issuance, and can be reset for intervals not to exceed 270 days.

On December 14, 2000, the university issued Indiana University Variable Rate Facility Revenue Bonds Series 2000 in the amount of \$16.8 million. The purpose of the issue was to refinance a bond anticipation note issued in 1999, which financed the new parking facility located just south of the Kelley Center and Library on the Kokomo campus; finance a parking facility connected to the Graduate School of Business on the Bloomington campus; and finance a parking facility on the northwest corner of Michigan and Blackford Streets on the Indianapolis campus. The variable interest rate was set at an initial weekly rate of 4.25%

On June 28, 2001, the university issued Indiana University Student Fee Bonds, Series N, in the amount of \$103.9 million. The purpose of the issue was to provide for a partial current refunding of Student Fee Bonds Series H, a partial advance refunding of the Student Fee Bonds Series I and a full current refunding of TECP 2000 (see above). The issue also included new money, which completed the financing for the Science and Campus Services Building on the Kokomo campus and the Student Activities Center on the South Bend campus. The true interest cost for the entire bond issue was 4.46%. The advance and current refunding resulted in the recognition of an accounting loss of \$2.360 million for the year ending June 30, 2001. The refunding portion of the transaction achieved debt service savings of

\$2.515 million with a net present value savings of \$2.367 million.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2001 was \$31.6 million.

#### Purdue University

The outstanding long-term bonded indebtedness at June 30, 2001 was \$315.8 million at 2.6% to 6.5% for Purdue University.

On July 1, 2000, series Q bonds were issued in the amount of \$50.0 million. This series includes funding for three projects: renovation of the Purdue Memorial Union; Boiler Life Extension Phase II; and construction of the Visual and Performing Arts Building. As of June 30, 2001, the balance outstanding on these bonds was \$50.0 million. The interest rates were 5.25% to 6.0%.

In prior years, Purdue University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2001 was \$105.4 million.

## G. Equity Reserves

Reserved fund balances/retained earnings are as follows:

Fund balance / retained earnings reserved for:	Encumbrances and prepaid items	Tuition support	Employees' pension benefits	Advances and inter-governmental loans	Debt service	Special purposes, future losses and other	Endowments and similar funds	Total reserves
<b>Governmental funds:</b>								
General fund	\$ 75,760	\$ 265,000	\$ -	\$ 9,874	\$ -	\$ 3,819	\$ -	\$ 354,453
Special revenue funds	966,273	-	-	554,769	-	98,818	-	1,619,860
Debt service funds	-	-	-	-	12,824	-	-	12,824
Capital projects funds	13,199	-	-	5,985	-	225	-	19,409
<b>Proprietary funds:</b>								
Enterprise funds	-	-	-	-	-	189,565	-	189,565
Internal service funds	-	-	-	300	-	25,680	-	25,980
<b>Trust and agency funds:</b>								
Expendable trust funds	-	-	-	-	-	1,024	-	1,024
Nonexpendable trust funds	-	-	-	326,578	-	-	-	326,578
Pension trust funds	-	-	306,895	-	-	-	-	306,895
<b>Discretely presented component units:</b>								
Governmental	5,948	-	-	-	-	-	-	5,948
Pension trust funds	-	-	15,874,528	-	-	-	-	15,874,528
Colleges and universities	-	-	-	-	-	-	422,750	422,750
<b>Total</b>	<b>\$ 1,061,180</b>	<b>\$ 265,000</b>	<b>\$ 16,181,423</b>	<b>\$ 897,506</b>	<b>\$ 12,824</b>	<b>\$ 319,131</b>	<b>\$ 422,750</b>	<b>\$ 19,159,814</b>

## H. Contributed Capital

The changes in contributed capital for proprietary funds were as follows:

	Enterprise Funds	-----Internal Service Funds-----			
	Inns and concessions	Institutional industries	Administrative services revolving	State Office Building Commission	Total
Beginning balance, contributed capital, as restated	\$ 9,308	\$ 8,878	\$ 1,490	\$ 9,981	\$ 29,657
Contributing sources:					
Capital grants	45	-	-	-	45
Ending balance, Contributed Capital	<u>\$ 9,353</u>	<u>\$ 8,878</u>	<u>\$ 1,490</u>	<u>\$ 9,981</u>	<u>\$ 29,702</u>

## I. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2001, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana

**Prior Period Adjustments** –Of the \$597.3 million prior period adjustment for Special Revenue Funds, \$599.0 million was for the Property Tax Replacement Fund. In connection with the implementation of GASB Statement No. 33 during FY 2001, amounts previously reported for FY 2000 have been restated to reflect changes in the recognition of intergovernmental payables. As presented on the Balance Sheet for FY 2000, Property Tax Replacement Fund Intergovernmental Payables increased by \$599.0

million while Unreserved Fund Balance Designated for Allotments decreased by the same amount.

Of the \$12.2 million prior period adjustment for the Internal Service Funds, \$16.2 million was for the State Police Benefit Fund. A correction of the method of estimating incurred claims caused this prior period adjustment.

The State collects and distributes taxes for local units of government through the General Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund. This resulted in a restatement of beginning assets in the amount of \$258.5 million. These assets



are Securities Lending Collateral and were carried as an asset in the General Fund in FY 2000.

Of the \$8.4 million prior period adjustment for Colleges and Universities, \$5.8 million was for Ivy Tech State College. In connection with the implementation of GASB Statement No. 33 during FY 2001, amounts previously reported for FY 2000 have been restated to reflect changes in the recognition of deferred revenue. As presented on the Balance Sheet for FY 2000, Restricted Funds Deferred Revenue increased by \$5.8 million while the Restricted Fund Balance decreased by the same amount.

**Reclassifications** – The State collects and distributes taxes for local units of government through the General Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund and are reclassified accordingly. This reclassification results in a reduction to the July 1, 2000 General Fund fund balance of \$331 million and an corresponding increase to Agency fund assets.

The State collects and distributes child support payments under Title IV-D through a Special Revenue Fund. Effective this reporting period it has been decided that these collections are more properly reported as an agency fund and are reclassified accordingly. This reclassification results in a reduction to the July 1, 2000 Special Revenue fund balance of \$21.7 million and an corresponding increase to Agency fund assets.

Effective July 1, 2000, the Public Employees Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) became independent bodies corporate and politic. The funds are not departments or agencies for the State but are independent instrumentalities exercising essential government functions. Because of their change in legal status these funds are reclassified as discretely presented component units. This results in decrease of \$15,876 million to the primary government's pension trust funds and a corresponding increase to discretely presented pension trust funds.

The following schedule presents a summary of restated beginning balances by fund type:

	June 30, 2000, As Reported	Prior Period Adjustments	Reclassifications	Balance July 1, As Restated
<b>Primary government including blended component units:</b>				
General Fund	\$ 3,219,285	\$ -	\$ (331,002)	\$ 2,888,283
Special revenue funds	2,153,788	(597,277)	(21,730)	1,534,781
Debt service funds	12,040	-	-	12,040
Capital projects funds	505,059	(4,717)	-	500,342
Enterprise funds	179,231	2,330	-	181,561
Internal service funds	53,620	(12,235)	-	41,385
Trust and agency funds:				
Expendable trust	2,122,464	-	-	2,122,464
Nonexpendable trust	451,091	-	-	451,091
Pension trust	16,186,104	-	(15,876,495)	309,609
Agency (asset)	379,993	258,535	352,732	991,260
			-	-
<b>Discretely presented component units:</b>				
Governmental	30,771	-	-	30,771
Proprietary	437,008	-	-	437,008
Pension trust	-	62	15,876,495	15,876,557
Colleges & universities	4,048,539	(8,361)	-	4,040,178
	<u>\$ 29,778,993</u>	<u>\$ (361,663)</u>	<u>\$ -</u>	<u>\$ 29,417,330</u>

## IV. OTHER INFORMATION

### A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase immaterial amounts of commercial insurance. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the state employees' disability, state employees' death benefits, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in five individual Internal Service Funds. The state employees' disability program is financed partially by state employees through payroll withholdings and by the funds from which employees are paid. The employees' death benefits are financed through a charge to each fund with payroll expenditures. The charge is a percentage of gross pay. The employees'

health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability for employee death benefit is based on claims submitted and paid during July for liabilities incurred prior to June 30. The liability of the State Police benefit fund was based on an estimate of the actuarial liability of death and disability payments. The surplus retained earnings in these funds is reserved for future catastrophic losses.

The unpaid claims of the State Disability Fund of \$11.1 million reported at June 30, 2000, included a reserve of \$4.0 million for workers' compensation claims. Since workers' compensation claims are paid by the agency, not the State Disability Fund, the unpaid claims as of July 1, 2000, was restated to \$7.1 million.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	State Employees' Death Benefits Fund	State Police Death Benefits	Total
<b>2001</b>						
Unpaid Claims, July 1 As Restated	\$ 2,013	\$ 8,010	\$ 7,142	\$ -	\$ 1,275	\$ 18,440
Incurring Claims and Changes in Estimate	12,946	56,597	21,062	100	17,780	108,485
Claims Paid	(13,359)	(55,607)	(21,085)	(50)	(1,418)	(91,519)
Unpaid Claims, June 30	<u>\$ 1,600</u>	<u>\$ 9,000</u>	<u>\$ 7,119</u>	<u>\$ 50</u>	<u>\$ 17,637</u>	<u>\$ 35,406</u>
<b>2000</b>						
Unpaid Claims, July 1	\$ 2,302	\$ 6,315	\$ 9,579	\$ -	\$ 1,175	\$ 19,371
Incurring Claims and Changes in Estimate	13,208	57,275	20,151	-	1,362	91,996
Claims Paid	(13,497)	(55,580)	(18,612)	-	(1,262)	(88,951)
Unpaid Claims, June 30	<u>\$ 2,013</u>	<u>\$ 8,010</u>	<u>\$ 11,118</u>	<u>\$ -</u>	<u>\$ 1,275</u>	<u>\$ 22,416</u>

The trustees of Indiana University and Purdue University (discretely presented component units) have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or

omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements

did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2001 was \$32.0 million.

## B. Investment in Joint Venture

The Indiana Transportation Finance Authority (ITFA) is a participant in a governmental joint venture with United Airlines. This participation is an investment, pursuant to an Agreement Among Tenants of Leasehold Estate in Airport Development Project (joint venture), dated as of December 1, 1991 and amended as of May 15, 1995 to obtain an individual ownership interest in the site and facilities to be acquired and constructed by United Airlines, as outlined in the Site and Facilities Lease Agreement, dated as of December 1, 1991 and amended as of May 15, 1995.

The ITFA deposited \$159 million of the bond proceeds of the Series 1992A bonds into the project account of the construction fund to provide for a portion of the costs of constructing and equipping Phase I of the United Airlines Indianapolis Maintenance Center. Additional proceeds of \$32.8 million, which consisted of capitalized and accrued interest, were deposited in the interest account of the construction fund.

The construction fund transactions related to the investment in Joint Venture are not reported as part of the financial reporting relating to ITFA's Airport Facilities Lease Revenue bonds. The construction fund is used to account for the acquisition and construction of a portion of the United Airlines Facility.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note 1A.

## C. Segment Information -- Enterprise Funds

The State of Indiana has five enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Inns and Concessions provide lodging and dining throughout the year for state park tourists. The Toll Bridges collect fees for the repayment of construction costs and to provide maintenance of the bridges. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects. The Residual Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 2001.

	<u>Inns and concessions</u>	<u>Toll bridges</u>	<u>Toll roads</u>	<u>State Lottery Commission</u>	<u>Malpractice Insurance Authority</u>	<u>Total</u>
Operating revenue	\$ 17,453	\$ 807	\$ 88,517	\$ 548,288	\$ 1,728	\$ 656,793
Depreciation and amortization	510	105	11,054	1,095	-	12,764
Operating income (loss)	(778)	75	43,106	147,855	(824)	189,434
Operating transfers in (out)	-	-	-	(155,636)	-	(155,636)
Net income (loss)	(565)	82	34,956	(51)	304	34,726
Fixed asset additions	130	-	27,260	622	-	28,012
Net working capital	1,512	3,822	194,844	36,154	3,560	239,892
Total assets	13,855	4,373	450,148	128,176	15,814	612,366
Bonds/notes/loans payable	349	-	234,235	-	-	234,584
Total equity	9,249	4,357	203,474	5,000	3,560	225,640

## D. Subsequent Events

During FY 2001, the State experienced actual revenue shortfalls and has reduced its revenue forecast for FY 2002 and FY 2003. Under the budget passed by the 2000 General Assembly, the State is expecting a deficit in the General Fund and the Property Tax Replacement Fund of \$919.6 million for FY ending June 30, 2003. The Governor has indicated he will delay distribution of the higher education allotment and tuition support, which would reduce the deficit to \$535.9 million. In addition, he will

seek a delay in the property tax replacement credit, which would further reduce the deficit to \$381.8 million on a cash basis. The Governor is working with the General Assembly on a plan to reduce the remaining deficit and balance the budget through a combination of spending reductions, tax increases, and existing funding sources that are not normally available to the General Fund.

On August 8, 2001, the Indiana State Office Building Commission issued Facilities Revenue Bonds, Series

2001A, aggregating \$66.6 million related to the Miami Correctional Facility-Phase II.

Subsequent to June 30, 2001, the Bond Bank has closed the following new bond issues: Special Program Bonds, Series 2001A in the amount of \$7.1 million, Advance Funding Program Notes, Series 2001B in the amount of \$5.0 million, and Common School Fund, Series 2001A in the amount of \$55.5 million.

## **E. Contingencies and Commitments**

### *Litigation*

The State does not establish reserves for judgements or other legal or equitable claims. Judgements and other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to \$300,000 for injury or death of one person in any one occurrence and \$5 million for injury or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a liability of \$6-8 million for open tort lawsuits. During fiscal year ending June 30, 2001, the State paid \$7.2 million for tort settlements and judgements, and claims.

The Indiana Attorney General's office is currently handling the following cases which could result in significant liabilities to the State.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at equal rates of pay. The plaintiffs seek class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. The State has filed a motion to dismiss for failure to exhaust administrative remedies. The motion was denied by the trial court, but the denial is being appealed. During fiscal year 1995, a similar action was filed in the Marion Superior Court. This matter is still pending, and if the State were ultimately unsuccessful, the loss would be approximately \$4 million.

In a lawsuit filed against the State on January 19, 1993, the Marion Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in their medical condition. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of Appeals recently affirmed the trial court's decision. The State sought transfer to the Supreme Court. In July 2001, the Supreme Court denied transfer, thus affirming the adverse trial court decision. As of December 2001, the State and the plaintiffs have agreed on Medicaid's manner of compliance with the judgment, and the agreement is awaiting court

approval. The fiscal impact is estimated to be \$25 million per year.

In September 2000, various Lake County residents and Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the indigent property tax and that the tax, therefore violates various constitutional provisions. A response to the petition was filed in November 2000. Plaintiffs are claiming that upwards of \$20 million should be refunded to taxpayers. The parties filed cross-motions for summary judgment and oral arguments were made on December 4, 2001. The State is currently awaiting a decision.

A gaming corporation operating one of the riverboats has challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions for summary judgment. The potential financial impact of this case is approximately \$7.5 million, with additional impact because of the precedent it would have on other gaming operations.

The State intends to vigorously defend each of the foregoing suits or other claims.

In addition, the State Lottery Commission (the Commission) is the defendant in a class action suit. During 1997, a class action suit was filed in Marion County Court on behalf of all persons denied prizes on tickets submitted beyond the statutorily required, final sixty-day claim period. In October 1997, the Court granted the Commission's motion to dismiss the complaint. However, the Indiana Court of Appeals reversed the trial court decision and found that the plaintiff was entitled to trial on the merits of his claim. The case is now pending before the Indiana Supreme Court.

Management and its legal counsel intend to vigorously defend its position but are unable to predict at this time the final outcome of the appeals process. If the Supreme Court upholds the plaintiff's appeal and allows a trial on the merits of the case, the Commission will vigorously defend its position and believes it will prevail. However, the Commission cannot predict the final resolution of this matter or whether its resolution could materially affect the Commission's results of operations, cash flows or financial position.

### *Loss from reimbursement agreement*

The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Qualitech Steel Corporation (Qualitech) and a bank relating to the \$33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic

Development Revenue Bonds, Series 1996 (the Bonds). The proceeds of the Bonds were used by Qualitech to help construct Qualitech's special bar quality steel mini-mill facility in Pittsboro, Indiana. The company filed for Chapter 11 bankruptcy in 1999, and the senior lenders purchased the assets of Qualitech in a credit bid. The senior lenders operated Qualitech SBQ, LLC until it ceased operations in January 2001. ITFA and the State are working with local officials to encourage potential purchasers.

To induce the bank to issue a letter of credit used as a credit enhancement in the marketing of the Bonds, ITFA agreed to certain provisions in the original Reimbursement Agreement. These provisions require ITFA, in the event of certain defaults by Qualitech, to either I) pay bond and related expenses from certain monies legally available to ITFA, or II) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement. The Amended Reimbursement Agreement requires that ITFA maintain the debt service reserve fund at the "fully-funded" level, and it stipulates no declaration of default so long as bond and related payments are made.

In fiscal year ending June 30, 2001, ITFA made bond and related payments of approximately \$3.4 million for Qualitech. In the 2001-2003 biennial budget, the Indiana General Assembly appropriated \$8.4 million for Qualitech bond and related payments, negating the need to access any ITFA guarantee funds in either FY 2002 or FY 2003.

ITFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling \$27.5 million. Debt service reserve funds aggregating over \$3.6 million are currently held in trust and may be available to reduce the contingent obligation.

#### *Federal Grants.*

The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

#### *Construction Commitments.*

As of June 30, 2001, the Indiana Transportation Finance Authority Highway Bonds, which are included in the financial reporting entity of the State of Indiana as a special revenue fund, had \$124.4 million committed for unfinished highway construction projects.

## **F. Other Revenue**

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

## **G. Economic Stabilization Fund**

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2001 was \$525.1 million. Total outstanding loans were \$.9 million, resulting in total assets of \$526.0 million.

## **H. Deferred Compensation**

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their

beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides \$15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

#### **I. Discretely Presented Component Units – Condensed Financial Statements**

The Indiana Development Finance Authority (IDFA) is the only discretely presented component unit of a governmental fund type and is considered significant. On the following pages are the condensed financial statements of the proprietary fund types, colleges and universities, and pension trust funds giving separate detail of the balances and activity of those considered significant to the State reporting entity.

**Condensed Balance Sheet**  
**Major and Aggregate Non-major Discretely Presented Component Units**  
**Proprietary fund types and Colleges and Universities**  
**June 30, 2001**

	Indiana University	Purdue University	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
<b>Assets</b>						
Current assets	\$ 817,111	\$ 1,622,910	\$ 109,127	\$ 242,923	\$ 1,196,992	\$ 3,989,063
Non-current assets	-	-	1,310,423	801,152	166,824	2,278,399
Property, plant, and equipment net of accumulated depreciation	1,494,397	861,640	-	419	894,468	3,250,924
<b>Total assets</b>	<b>\$ 2,311,508</b>	<b>\$ 2,484,550</b>	<b>\$ 1,419,550</b>	<b>\$ 1,044,494</b>	<b>\$ 2,258,284</b>	<b>\$ 9,518,386</b>
<b>Liabilities</b>						
Current liabilities	\$ 230,834	\$ 326,701	\$ 85,940	\$ 2,251	\$ 372,790	\$ 1,018,516
Revenue bonds / notes payable	561,571	334,384	1,322,013	911,856	569,663	3,699,487
<b>Total liabilities</b>	<b>792,405</b>	<b>661,085</b>	<b>1,407,953</b>	<b>914,107</b>	<b>942,453</b>	<b>4,718,003</b>
<b>Equity</b>						
Net investment in plant	956,410	531,682	-	-	603,445	2,091,537
Endowments and similar funds	138,229	255,543	-	-	28,978	422,750
Unreserved retained earnings	-	-	11,597	130,387	360,512	502,496
Allocated fund balance	103,296	671,372	-	-	220,618	995,286
Unallocated fund balance	321,168	364,868	-	-	102,278	788,314
<b>Total equity</b>	<b>1,519,103</b>	<b>1,823,465</b>	<b>11,597</b>	<b>130,387</b>	<b>1,315,831</b>	<b>4,800,383</b>
<b>Total liabilities and equity</b>	<b>\$ 2,311,508</b>	<b>\$ 2,484,550</b>	<b>\$ 1,419,550</b>	<b>\$ 1,044,494</b>	<b>\$ 2,258,284</b>	<b>\$ 9,518,386</b>

**Condensed Statement of Changes in Fund Balance**  
**Major and Aggregate Non-major Discretely Presented Component Units**  
**Colleges and Universities**  
**For the Fiscal Year Ended June 30, 2001**

	Indiana University	Purdue University	Non-major universities	Total
<b>Revenues and other additions:</b>				
Current fund revenues	\$ 1,174,983	\$ 726,723	\$ 549,547	\$ 2,451,253
Additions to plant and facilities	(80,494)	108,002	81,608	109,116
Retirement of indebtedness	115,078	25,440	22,148	162,666
Other additions	947,638	649,695	441,591	2,038,924
<b>Total revenues and other additions</b>	<b>2,157,205</b>	<b>1,509,860</b>	<b>1,094,894</b>	<b>4,761,959</b>
<b>Expenditures and other deductions:</b>				
Current fund expenditures	1,046,091	785,369	746,367	2,577,827
Expended for plant, facilities, and disposals	(116,692)	124,213	100,609	108,130
Bond issues, issuance costs, and retirements	175,748	60,168	48,157	284,073
Debt service requirements	23,875	43,494	19,732	87,101
Depreciation and amortization	86,154	64,746	36,577	187,477
Other deductions	803,828	338,622	117,192	1,259,642
<b>Total expenditures and deductions</b>	<b>2,019,004</b>	<b>1,416,612</b>	<b>1,068,634</b>	<b>4,504,250</b>
<b>Net increase (decrease) for the year</b>	<b>138,201</b>	<b>93,248</b>	<b>26,260</b>	<b>257,709</b>
<b>Fund balance, July 1, as restated</b>	<b>1,380,902</b>	<b>1,730,217</b>	<b>929,059</b>	<b>4,040,178</b>
<b>Fund balance, June 30</b>	<b>\$ 1,519,103</b>	<b>\$ 1,823,465</b>	<b>\$ 955,319</b>	<b>\$ 4,297,887</b>

**Condensed Statement of Current Fund Revenues, Expenditures, and Other Changes**  
**Major and Aggregate Non-major Discretely Presented Component Units**  
**Colleges and Universities**  
**For the Fiscal Year Ended June 30, 2001**

	<b>Indiana University</b>	<b>Purdue University</b>	<b>Non-major universities</b>	<b>Total</b>
<b>Revenues:</b>	<u>\$ 1,782,500</u>	<u>\$ 1,186,580</u>	<u>\$ 919,946</u>	<u>\$ 3,889,026</u>
<b>Expenditures and mandatory transfers:</b>				
Expenditures:				
Educational and general	1,374,421	911,715	744,913	3,031,049
Auxiliary enterprises	298,449	136,374	109,129	543,952
Mandatory transfers	58,680	50,440	20,109	129,229
Total expenditures and mandatory transfers	<u>1,731,550</u>	<u>1,098,529</u>	<u>874,151</u>	<u>3,704,230</u>
<b>Other transfers and additions (deductions):</b>	<u>(43,998)</u>	<u>(21,427)</u>	<u>(36,721)</u>	<u>(102,146)</u>
<b>Increase (decrease) in fund balance</b>	<u><b>\$ 6,952</b></u>	<u><b>\$ 66,624</b></u>	<u><b>\$ 9,074</b></u>	<u><b>\$ 82,650</b></u>

**Condensed Statement of Revenues, Expenses and Changes in Retained Earnings**  
**Major and Aggregate Non-major Discretely Presented Component Units**  
**Proprietary fund types**  
**For the Fiscal Year Ended June 30, 2001**

	<b>Indiana Bond Bank</b>	<b>Indiana Housing Finance Authority</b>	<b>Non-major component units</b>	<b>Total</b>
<b>Operating revenues:</b>	<u>\$ 70,489</u>	<u>\$ 88,016</u>	<u>\$ 56,839</u>	<u>\$ 215,344</u>
<b>Operating expenses:</b>	<u>3,751</u>	<u>8,694</u>	<u>21,839</u>	<u>34,284</u>
Operating income (loss)	66,738	79,322	35,000	181,060
<b>Nonoperating revenues (expenses):</b>	<u>(66,968)</u>	<u>(38,493)</u>	<u>(7,783)</u>	<u>(113,244)</u>
Income before operating transfers	(230)	40,829	27,217	67,816
<b>Operating transfers in (out)</b>	<u>-</u>	<u>-</u>	<u>(2,328)</u>	<u>(2,328)</u>
<b>Net income (loss)</b>	<u>(230)</u>	<u>40,829</u>	<u>24,889</u>	<u>65,488</u>
<b>Retained earnings, July 1, as restated</b>	<u>11,827</u>	<u>89,558</u>	<u>335,623</u>	<u>437,008</u>
<b>Retained earnings, June 30</b>	<u><b>\$ 11,597</b></u>	<u><b>\$ 130,387</b></u>	<u><b>\$ 360,512</b></u>	<u><b>\$ 502,496</b></u>



**Condensed Statement of Plan Net Assets**  
**Major Discretely Presented Component Units**  
**Pension Trust Funds**  
**June 30, 2001**

	<b>Public Employees' Retirement Fund</b>	<b>State Teachers' Retirement Fund</b>	<b>Totals</b>
<b>Assets</b>			
Cash, cash equivalents and receivables	\$ 742,915	\$ 532,750	\$ 1,275,665
Securities lending collateral	1,394,895	586,199	1,981,094
Investments	9,669,065	5,502,486	15,171,551
Property, plant, and equipment net of accumulated depreciation	46	13	59
<b>Total assets</b>	<b>\$ 11,806,921</b>	<b>\$ 6,621,448</b>	<b>\$ 18,428,369</b>
<b>Liabilities</b>			
Payables	\$ 348,257	\$ 224,490	\$ 572,747
Securities lending collateral	1,394,895	586,199	1,981,094
<b>Total liabilities</b>	<b>1,743,152</b>	<b>810,689</b>	<b>2,553,841</b>
<b>Fund balance</b>			
Reserved for employees pension benefits	10,063,769	5,810,759	15,874,528
<b>Total fund balance</b>	<b>10,063,769</b>	<b>5,810,759</b>	<b>15,874,528</b>
<b>Total liabilities and fund balance</b>	<b>\$ 11,806,921</b>	<b>\$ 6,621,448</b>	<b>\$ 18,428,369</b>

**Condensed Statement of Changes in Plan Net Assets**  
**Major Discretely Presented Component Units**  
**Pension Trust Funds**  
**For the Year Ended June 30, 2001**

	<b>Public Employees' Retirement Fund</b>	<b>State Teachers' Retirement Fund</b>	<b>Totals</b>
Additions	\$ 129,336	\$ 830,960	\$ 960,296
Deductions	364,539	597,786	962,325
<b>Net increase (decrease) in net assets</b>	<b>(235,203)</b>	<b>233,174</b>	<b>(2,029)</b>
Net assets held in trust for pension benefits, July 1, as restated	10,298,972	5,577,585	15,876,557
<b>Net assets held in trust for pension benefits, June 30</b>	<b>\$ 10,063,769</b>	<b>\$ 5,810,759</b>	<b>\$ 15,874,528</b>

## J. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements. They are reported and administered as described in Note IA.

### Summary of Significant Accounting Policies (Primary government and discretely presented component units)

Contributions are recognized when received with accrual adjustments at June 30, 2001. The accrual for contributions receivable is estimated for each retirement fund on the basis that best represents that fund's receivable. The different basis include actual third quarter contributions received during the quarter ended June 30, 2001, actual contributions received in July for work days in June, or a combination of the two. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds.

Benefits paid are recognized when paid with an accrual adjustment at June 30, 2001. The accrual for benefits payable is based on benefits due at June 30 but not paid until July. Refunds are recognized when paid.

Investments of defined benefit plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The buildings purchased as investments by the Public Employees Retirement Fund (PERF) are reported at cost as there has not been a recent independent appraisal. The buildings are immaterial to PERF's total investments.

*The state sponsors the following defined benefit single-employer plans:*

### State Police Retirement Fund (Presented as part of primary government)

Plan Description The State Police Retirement Fund (SPRF), is a defined benefit, single-employer PERS, and is administered by the Indiana Department of State Police. Indiana Code 10-1-1 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust and to make the annual contributions necessary to prevent any deterioration in the actuarial status of the trust

fund. The Department has a publicly available audit report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing the Department of State Police, Room N340, IGC-North, Indianapolis, IN 46204.

Funding Policy The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly base salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The State is required to contribute at an actuarially determined rate; the current rate is 18.3% of covered payroll.

### Excise Police and Conservation Enforcement Officers' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Fund (ECRF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Fund provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first \$8,500 of annual salary to the Fund. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 15.7% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Fund provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing.

Prosecuting Attorneys' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Legislators' Retirement System – Legislators' Defined Benefit Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was

serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

Judges' Retirement System (Presented as part of PERF – a discretely presented component unit)

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-13-10.1 applies to judges beginning service after August 31, 1985. Indiana Code 33-13-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund

appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

*The State sponsors the following defined benefit agent multiple-employer plan:*

Public Employees' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

**Plan Description** The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2001, the number of participating political subdivisions was 1037.

**Funding Policy** The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 5.0% of covered payroll.

The Annual Pension Cost and Net Pension Obligations, the significant actuarial assumptions, and the historical trend information of the single and agent multiple employer defined benefit plans are as follows:

	Primary Government	-----Discretely Presented Component Unit-----					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
<b>Annual Pension Cost and Net Pension Obligation (Asset)</b>							
Annual required contribution	\$ 9,305.2	\$ 61,762.0	\$ 99,207.0	\$ 1,701.9	\$ 11,491.1	\$ 425.6	\$ 186.7
Interest on net pension obligation	(114.2)	(827.0)	(2,947.0)	(21.6)	(103.1)	31.2	(2.8)
Adjustment to annual required contribution	124.4	889.0	3,169.0	21.7	103.4	(33.1)	3.2
Annual pension cost	9,315.4	61,824.0	99,429.0	1,702.0	11,491.4	423.7	187.1
Contributions made	(9,587.0)	(84,354.0)	(128,754.0)	(1,937.3)	(11,775.0)	(275.3)	(170.1)
Increase (decrease) in net pension obligation	(271.6)	(22,530.0)	(29,325.0)	(235.3)	(283.6)	148.4	17.0
Net pension obligations, beginning of year	(1,631.5)	(11,407.0)	(40,648.0)	(297.7)	(1,422.4)	429.9	(38.5)
Net pension obligations, end of year	\$ (1,903.1)	\$ (33,937.0)	\$ (69,973.0)	\$ (533.0)	\$ (1,706.0)	\$ 578.3	\$ (21.5)
<b>Significant Actuarial Assumptions</b>							
Investment rate of return	7.00%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:							
Total	2.70%	5.00%	5.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	6.00%	2.00%	2.00%	2.00%	N/A	N/A	2.00%
Contribution rates:							
State	17.90%	5.00%	5.00%	15.70%	35.40%	2.80%	*
Plan members	6.00%	3.00%	3.00%	3.00%	6.00%	6.00%	0.00%
Actuarial valuation date	7/1/01	7/1/00	7/1/00	7/1/00	7/1/00	7/1/00	7/1/00
Actuarial cost method	entry age	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	accrued benefit (unit credit)
Amortization method	level percent	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	40 years	40 years	40 years	30 years	40 years	30 years	30 years
Amortization period (from date)	7/1/97	7/1/97	7/1/97	7/1/97	7/1/97	N/A	7/1/92
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	smoothed basis	75% of expected actuarial value plus 25% of cost value	75% of expected actuarial value plus 25% of cost value	smoothed basis	smoothed market value	smoothed market value	smoothed market value
<b>Historical Trend Information</b>							
<b>Year ended June 30, 2001</b>							
Annual pension cost (APC)	\$ 9,315.4	*	*	*	*	*	*
Percentage of APC contributed	102.9%	*	*	*	*	*	*
Net pension obligations (assets)	\$ (1,903.1)	*	*	*	*	*	*
<b>Year ended June 30, 2000</b>							
Annual pension cost (APC)	\$ 8,583.9	\$ 61,824.0	\$ 99,429.0	\$ 1,702.0	\$ 11,491.4	\$ 423.7	\$ 187.1
Percentage of APC contributed	111.7%	136.4%	129.5%	113.8%	102.5%	65.0%	90.9%
Net pension obligations (assets)	\$ (1,631.5)	\$ (33,937.0)	\$ (69,973.0)	\$ (533.0)	\$ (1,706.0)	\$ 578.3	\$ (21.5)
<b>Year ended June 30, 1999</b>							
Annual pension cost (APC)	\$ 8,583.9	\$ 67,486.0	\$ 100,043.0	\$ 1,780.8	\$ 11,101.1	\$ 389.3	\$ 208.9
Percentage of APC contributed	111.9%	115.3%	125.2%	101.1%	99.9%	47.4%	96.0%
Net pension obligations (assets)	\$ (628.4)	\$ (11,407.0)	\$ (40,648.0)	\$ (297.7)	\$ (1,422.4)	\$ 429.9	\$ (38.5)
<b>Year ended June 30, 1998</b>							
Annual pension cost (APC)	\$ 9,360.0	\$ 81,546.0	\$ 101,345.0	\$ 1,675.7	\$ 10,762.5	\$ 275.3	\$ 170.9
Percentage of APC contributed	98.3%	98.3%	114.4%	102.9%	99.0%	67.0%	117.9%
Net pension obligations (assets)	\$ 157.0	\$ (1,072.0)	\$ (21,905.0)	\$ (278.9)	\$ (1,428.2)	\$ 225.0	\$ (46.7)
SPRF - State Police Retirement Fund							
PERF - Public Employees' Retirement Fund							
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)							
JRS - Judges' Retirement System (Administered by the PERF board of trustees)							
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)							
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)							
N/A - not applicable							
* - information not available							

*The State sponsors the following cost-sharing multiple-employer plans:*

State Teachers' Retirement Fund (Presented as a discretely presented component unit)

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2001, the number of participating employers was 353.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The pre July 1, 1995 plan is on a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit pay-outs

for each fiscal year. These appropriations include revenues from the State Lottery Commission.

1977 Police Officers' and Firefighters' Pension and Disability Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2001, the number of participating employer units totaled 153 (244 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	<b>Discretely Presented Component Units</b>	
	<b>STRF</b>	<b>PFPF*</b>
<b>Historical Trend Information</b>		
<u>Year ended June 30, 2000</u>		
Annual required contribution	\$ 547,532.7	\$ 77,365.8
percentage contributed	118%	91%
<u>Year ended June 30, 1999</u>		
Annual required contribution	\$ 524,815.6	\$ 63,682.3
percentage contributed	117%	100%
<u>Year ended June 30, 1998</u>		
Annual required contribution	\$ 508,259.7	\$ 57,726.0
percentage contributed	92%	100%
STRF - State Teachers' Retirement Fund		
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)		
* - year ended December 31		

*The State sponsors the following defined contribution plan:*

**Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of PERF – a discretely presented component unit)**

**Plan Description** The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

**Funding Policy** Each participant shall make contributions of five percent of salary received for services after June 30, 1989. Contributions equal to twenty percent of the annual salary received by each participant for services after June 30, 1989, are to be made from the biennial appropriation from the State's

General Fund. Actual contributions for the year ended June 30, 2001 were \$954,471.

Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF.

***Colleges and Universities***

Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees' Retirement Fund (PERF).

The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends. Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-CREF are determined by each institution. Indiana University and Purdue University contributed \$97.9 million for 12,508 participants for the year ended June 30, 2001. Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 2001 are included in the disclosures for PERF.

## K. Required Supplementary Information

	Primary Government		-----Discretely Presented Component Unit-----					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS	
<b>Valuation Date: July 1, 2001</b>								
Actuarial value of assets	\$ 307,072	*	*	*	*	*	*	
Actuarial accrued liability (AAL)	338,867	*	*	*	*	*	*	
Excess of assets over (unfunded) AAL	(31,795)	*	*	*	*	*	*	
Funded ratio	91%	*	*	*	*	*	*	
Covered payroll	51,395	*	*	*	*	*	*	
Excess (unfunded) AAL as a percentage of covered payroll	-62%	*	*	*	*	*	*	
<b>Valuation Date: July 1, 2000</b>								
Actuarial value of assets	\$ 292,383	\$ 1,960,018	\$ 2,356,058	\$ 34,368	\$ 103,733	\$ 9,781	\$ 4,557	
Actuarial accrued liability (AAL)	326,016	1,701,091	2,047,213	46,272	182,448	13,943	5,453	
Excess of assets over (unfunded) AAL	(33,633)	258,927	308,845	(11,904)	(78,715)	(4,162)	(896)	
Funded ratio	90%	115%	115%	74%	57%	70%	84%	
Covered payroll	50,898	1,371,496	2,110,957	11,306	30,428	13,422	**	
Excess (unfunded) AAL as a percentage of covered payroll	-66%	19%	15%	-105%	-259%	-31%	**	
<b>Valuation Date: July 1, 1999</b>								
Actuarial value of assets	\$ 273,032	\$ 1,828,584	\$ 2,179,129	\$ 31,510	\$ 91,073	\$ 8,323	\$ 4,319	
Actuarial accrued liability (AAL)	303,805	1,583,486	1,904,943	43,368	176,301	13,712	5,473	
Excess of assets over (unfunded) AAL	(30,773)	245,098	274,186	(11,858)	(85,228)	(5,389)	(1,154)	
Funded ratio	90%	115.48%	114.39%	73%	52%	61%	79%	
Covered payroll	46,361	1,271,756	1,978,441	11,317	30,963	12,566	**	
Excess (unfunded) AAL as a percentage of covered payroll	-66%	19%	14%	-105%	-275%	-43%	**	
<b>Valuation Date: July 1, 1998</b>								
Actuarial value of assets	\$ 255,614	\$ 1,626,450	\$ 1,925,592	\$ 28,663	\$ 79,594	\$ 7,144	\$ 4,041	
Actuarial accrued liability (AAL)	289,612	1,491,986	1,775,251	41,679	160,845	11,356	5,385	
Excess of assets over (unfunded) AAL	(33,998)	134,464	150,341	(13,016)	(81,251)	(4,212)	(1,344)	
Funded ratio	88%	109%	108%	69%	49%	63%	75%	
Covered payroll	45,187	1,229,903	1,880,259	10,137	30,853	11,673	742	
Excess (unfunded) AAL as a percentage of covered payroll	-75%	11%	8%	-128%	-263%	-36%	-181%	
SPRF - State Police Retirement Fund PERF - Public Employees' Retirement Fund ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees) JRS - Judges' Retirement System (Administered by the PERF board of trustees) PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees) LRS - Legislators' Retirement System (Administered by the PERF board of trustees)								
* - information not available ** The benefit formula is determined based on service rather than compensation. The unfunded liability is expressed per active participant and there are 60 active participants. The unfunded liability per active participant is \$14,940.								



## **APPENDIX B**

### **THE QUALIFIED ENTITY**

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## **THE QUALIFIED ENTITY**

### **(The Board of Trustees of Hendricks County Hospital)**

#### **Background**

The Board of Trustees of Hendricks County Hospital, a body corporate and politic of the State of Indiana (the "Board" or the "Qualified Entity"), operates Hendricks Community Hospital (the "Hospital") located in Danville, Indiana, which is the county seat of Hendricks County situated approximately twelve miles west of Indianapolis. The Hospital is a general acute care short term Hospital having a licensed capacity of 160 beds and currently operating 127 beds. The Hospital was originally constructed in 1962.

The Hospital has expanded steadily during the last forty years. A laboratory and radiology addition was completed in 1965. Then, in 1967, the second expansion added a second floor to the inpatient nursing wing. The third expansion in 1973 resulted in two additional operating rooms, two emergency examination rooms, a physical therapy area and the enlargement of other ancillary service areas.

The fourth expansion completed in the early 1980's resulted in major changes to the Hospital. Approximately 44,000 square feet of new space was added and renovation of 42,000 square feet was performed to position the Hospital for the next decade. Extensive changes occurred to all diagnostic and treatment areas for improved service and traffic flow with emphasis being focused on outpatient care.

In 1988 the Hospital began doing business as Hendricks Community Hospital rather than Hendricks County Hospital. This name change was driven by the fact that the Hospital was attracting a significant amount of patients from outside the county.

In 1991, the Hospital embarked on an expansion and renovation project costing approximately \$21,000,000. It entailed a new operating plant facility to house mechanical and electrical equipment in addition to significantly expanding its outpatient service capabilities.

To increase available space for outpatient services on the main level of the Hospital, a third floor was added to the inpatient nursing wing to house a new Family-Centered Maternity Unit featuring labor, delivery, recovery, and postpartum (LDRP) suites.

In 1993, the hospital constructed the first of three off-campus facilities in Avon. What began as a stand-alone Medical Office Building (MOB) quickly grew into a second adjoining MOB and a Cancer Center. The second MOB included an Immediate Care Center, Laboratory and Radiology services. The Radiology area housed the county's first open MRI. In 2001 an Outpatient Surgery Center was added to the site. Physical Therapy services were added in 2002.

In 1999, Brownsburg was the site of the Hospital's second off-campus development project. It included a medical office building which housed Laboratory and Radiology services as well as numerous physician practices.

Plainfield is the latest site for a medical office building. Opening in early 2002, the Plainfield facility is a three-story structure with over 100,000 square feet of space housing numerous hospital services and primary care and specialty physician practices. Services presently in operation are an Immediate Care Center, Laboratory and Radiology, Physical Therapy and Occupational Medicine.

The Hospital currently operates 127 adult beds and 20 nursery bassinets as outlined below:

<u>Type of Service</u>	<u>Beds</u>
Medical Surgical	80
Intensive Care	12
OB/GYN	21
Psychiatry	<u>14</u>
Total, Adult Beds	127
Nursery	<u>20</u>
Total Beds	147

## **The Project**

The project includes the construction of a new North building and the renovation of existing space. The North expansion project will be a two-story building, approximately 38,000 square feet, attached to the northeast corner of the hospital. The first floor will consist of a new Emergency Department (ED). This will double the size of the department and for the first time allows imaging services to be contained within the department.

The second floor will house 37 new private patient rooms, and the building is structurally designed to be extended vertically for three more floors. At this time, there is no shell space. The basement will contain the chillers, boilers, air handlers, electrical distribution switchgear, and miscellaneous equipment necessary to serve the entire project. The project also includes a freestanding helipad just north of the new Emergency Department and new parking, a landscaped courtyard, and public plaza. Connectors between the new facility and the Hospital will also be provided. The new construction portion of the project is estimated to cost approximately \$23,000,000.

In addition, the project includes the renovation and redeployment of existing space necessary to meet the growing needs of patient service departments. The total project cost is anticipated to be \$35,500,000. In addition, the Hospital plans to refinance approximately \$14,500,000 of existing debt. The remaining \$10,000,000 of bond proceeds will be utilized to reimburse the Hospital for recent capital projects and to pay the costs of financing.

## **Services**

Today the Hospital operates as a community hospital providing a broad array of services such as neurology, cardiology, oncology, and orthopedics, including hip and knee replacement and inpatient physical rehabilitation. The ancillary and support services offered by the Hospital are as follows:

Ambulatory Services	Magnetic Resonance Imaging (MRI)
Cardiac Rehabilitation	Mammography
Cardiac Telemetry	Nuclear Medicine
Cardiovascular Studies	Nurseries
Chemotherapy Services	Occupational Therapy
Clinical and Anatomical	Oncology
Laboratory	Patient Education
Computerized Tomography	Pediatrics
Coronary Care	Pharmacy
Diagnostic Radiology and	Physical Therapy
Special Procedures	Progressive Care
Electrocardiology	Psychiatric Center
Emergency Department	Radiation Therapy
Endoscopy	Recovery Room

Enterostomal Therapy	Respiratory Care
Epidemiology/Infection Control	Social Services
Home Care	Speech Therapy
Intensive Care	Tumor Registry
Labor and Delivery Service	Surgical Facilities
	Ultrasound

## Organization

A five member Board of Trustees, appointed by the Board of Commissioners of Hendricks County, governs the Hospital. Administrative functions are carried out by the chief executive officer (CEO) and staff members.

Other corporations have been created which operate under the control of the Board for the provision of other services. An organization chart and a brief description of the functions of the Board and its affiliates are:

The Board of Commissioners of Hendricks County (3 members)	- elected by County voters
The Board of Trustees of Hendricks County Hospital (5 members)	- appointed by County Commissioners
Hendricks Community Hospital Foundation, Inc. Board of Trustees (7 members)	- elected by Foundation Board, includes four Hospital Board members
Foundation Associates, Inc. (for profit)	- a subsidiary of the Foundation, governed by its board

The Hendricks Community Hospital Foundation, Inc. (the "Foundation"), is organized as a charitable foundation whose assets are utilized for the benefit of the Hospital. The Foundation owns one and leases another medical office building in Hendricks County. Private duty home care is also provided through the Foundation.

Foundation Associates, Inc. ("Foundation Associates"), operates a pharmacy located in one of the Foundation's medical office buildings.

The Foundation had total assets and net worth of approximately \$27 million and \$2.6 million, respectively, at December 31, 2001.

## Governance

The Hendricks County Commissioners appoint the five Board members to serve staggered four-year terms. The Commissioners are required to appoint at least two members from both major political parties. The current members of the Board including their professions are as follows:

<u>Board Members</u>	<u>Profession</u>	<u>Term Expires</u>
P. Daniel Reed, M.D. (Chairman)	General surgeon	2005
Bert T. Carson, Jr. (Vice Chairman)	Retired businessman	2003
Terry L. Dillon (Secretary)	Certified public accountant	2002
David E. Lawson	Attorney	2002
Kathleen Corbin	School superintendent	2005

The Board has a conflict of interest policy with its trustees and officers. The bylaws of the Board permit the Board to transact business with an organization in which a trustee or officer has a financial interest, provided that the fact is disclosed to or is known by the Board and that the person having such conflict does not participate in any decision of the Board involving the other organization. In this way, any individual who might derive personal, financial or other type of benefit from a Board decision is removed from the decision making process.

## Executive Management

DENNIS W. DAWES, *President and Chief Executive Officer*

Mr. Dawes (56) has served as President and Chief Executive Officer of the Hospital since October 1974. He started with the Hospital in August 1972. Mr. Dawes also serves as treasurer of the Board. Mr. Dawes received a Bachelor of Arts degree from Taylor University in May 1968 and a Master of Health Care Administration degree from Indiana University School of Medicine in May 1974. Before coming to Hendricks Community Hospital he worked with Inter-Varsity Christian Fellowship and the Indiana State Department of Health. He is a Fellow in the American College of Healthcare Executives, a past Chairman of the Board of the Indiana Hospital and Health Association, and was a delegate to the American Hospital Association and Region V Board. Mr. Dawes serves on the Board of Directors of the Suburban Health Organization, Health Care Partners, Inc., and the Brownsburg, Avon, and Danville Chambers of Commerce. He also serves on the Board of Directors of Lincoln Federal Savings Bank in Plainfield. He is a member of the Danville Rotary Club and an elder in his church.

PATRICIA L. CRAIG, *Executive Vice President and Chief Operating Officer*

Mrs. Craig (49) has served as Executive Vice President and Chief Operating Officer since March 1990. From September 1984 to February 1990, she served as Vice President of Nursing. From May 1972 to September 1984, Mrs. Craig was associated with St. Francis Hospital Center, Beech Grove, Indiana where she held various staff nurse and progressive management positions. Mrs. Craig received an Associate of Arts in Nursing degree from Indiana University in May 1972, a Bachelor of Science in Nursing from Indiana University in August 1982 and a Masters of Business Administration at the University of Indianapolis in 1992. She has been active in the American Organization of Nurse Executives; Indiana Organization of Nurse Executives (Past President); American Nurses Association; Indiana State Nurses Association; American College of Healthcare Executives; and Sigma Theta Tau, the international honor society of nursing.

JOHN J. KOMENDA, *Vice President of Finance and Chief Financial Officer*

Mr. Komenda (49) has been the Chief Financial Officer of the Hospital since November 1983. Prior to that, he had accumulated six years of healthcare experience, five years on the healthcare audit and consulting staff of two regional CPA firms and one year as a cost accountant at the Indiana University Medical Center. Mr. Komenda received a Bachelor of Science degree in Business Administration (1976) and a Masters of Business Administration (1991) from Indiana University. His professional affiliations include the American Institute of Certified Public Accountants, Indiana CPA Society, and the Healthcare Financial Management Association. Mr. Komenda is also active in his church and in the community as a Rotarian and a Board member of Cummins Mental Health Center.

### **Accreditation and Affiliation**

The Hospital received its current three-year accreditation from the Joint Commission on Accreditation of Healthcare Organizations in December 2000. It is licensed to operate by the Indiana State Board of Health. The Hospital is a member of the American Hospital Association, Indiana Health&Hospital Association and Suburban Hospitals, Inc.

### **Medical Staff**

The Medical Staff of the Hospital is divided into three categories: Active, Affiliate and Provisional. Active medical staff members have chosen the Hospital as their primary Hospital. All active staff members maintain offices within the Hospital's primary service area. Active staff members are required to serve on Hospital operational committees. Approximately 76% of all Hospital admissions are generated by the active medical staff. Affiliate medical staff are: (1) older physicians who were previously on the active medical staff; and (2) physicians with admitting privileges at other hospitals. Affiliate staff are required to annually attend three medical staff meetings if their number of admissions exceeds 25 per year. The affiliate staff accounts for 15% of the Hospital's admissions. Provisional medical staff members have been granted temporary privileges to admit patients until a review and approval process is completed before the granting of full privileges. Their admissions constitute approximately 9% of the Hospital's total admissions. Board Certification has been attained by 84% of the medical staff. The following table presents a profile of the Hospital's medical staff.

**Hendricks Community Hospital**  
**Medical Staff Profile for the Year Ended December 31, 2001**

<u>Specialty</u>	<u>Number of MDs</u>	<u>Average Age</u>	<u>Board Certified Percent</u>	<u>Discharges</u>	<u>% of Total Discharges</u>
Allergy/Immunology	4	48	100	-	-
Anesthesiology	3	42	67	-	-
Cardiology	22	45	95	618	8.5
Dermatology	3	50	100	-	-
Emergency Medicine	6	41	83	-	-
Family Practice	21	43	86	773	10.6
Gastroenterology	4	52	100	249	3.4
Hematology/Oncology	5	48	100	84	1.2
Immediate Care	5	52	80	-	-
Infectious Disease	3	46	100	71	1.0
Internal Medicine	15	38	100	2,069	28.3
Nephrology	17	45	100	2	-
Neurology	5	48	60	214	2.9
Neurosurgery	1	56	100	-	-
OB/Gyn	7	48	57	1,108	15.2
Ophthalmology	6	48	83	-	-
Oral Surgery	4	46	75	12	.2
Orthopedics	15	45	80	247	3.4
Otolaryngology	3	42	100	53	.7
Pathology	12	48	100	-	-
Pediatrics	7	37	57	398	5.4
Pediatric Dentistry	1	47	-	-	-
Physical Medicine/Rehab	1	58	100	-	-
Plastic Surgery	4	53	100	11	.2
Podiatry	10	45	80	-	-
Proctology	1	51	100	-	-
Psychiatry	4	43	75	477	6.5
Psychology	2	52	50	-	-
Pulmonary Medicine	2	60	100	179	2.5
Radiation Oncology	6	45	83	-	-
Radiology	5	46	100	-	-
Surgery	10	44	80	600	8.2
Urology	<u>13</u>	<u>46</u>	<u>100</u>	<u>145</u>	<u>2.0</u>
Totals / Averages	227	45	88	7,311	100.0



<u>Status</u>	<u>Number of MDs</u>	<u>Average Age</u>	<u>Board Certified Percent</u>	<u>Discharges</u>	<u>% of Total Discharges</u>
Active	90	44	88	7,045	96.4
Affiliate	126	47	90	135	1.9
Provisional	<u>11</u>	<u>40</u>	<u>64</u>	<u>131</u>	<u>1.7</u>
Total	227	45	88	7,311	100.0

The Hospital formed an alliance with Indiana University Medical School, Krannert Institute of Cardiology, in 1983 to rotate Cardiology Fellows through Hendricks Community Hospital as part of their clinical training. Since that time the Hospital has taken part in training 42 Fellows and 6 I.U. Associate Professors of Medicine. Graduates of this program have returned as Board Certified Cardiologists who now supervise current Fellows. The Krannert Institute of Cardiology is recognized as a world leader in its field.

A profile of the top twenty admitters for the calendar year 2001 is presented in the following table:

<u>Number</u>	<u>Specialty</u>	<u>Age</u>	<u>Board Certified</u>	<u>2001 Admissions</u>	<u>Percent of 2001 Admissions</u>
1	Internal Medicine	41	Yes	495	6.7
2	OB/GYN	52	No	304	4.1
3	Psychiatry	47	Yes	301	4.1
4	OB/GYN	42	Yes	252	3.4
5	OB/GYN	55	Yes	234	3.2
6	Surgery	46	Yes	215	2.9
7	OB/GYN	38	Yes	208	2.8
8	Internal Medicine	35	Yes	206	2.8
9	Internal Medicine	41	Yes	180	2.4
10	Psychiatry	44	Yes	176	2.4
11	Internal Medicine	34	Yes	169	2.3
12	Pulmonary Medicine	50	Yes	168	2.3
13	Cardiology	40	Yes	165	2.2
14	Internal Medicine/Pediatrics	35	Yes	161	2.2
15	Surgery	47	Yes	150	2.0
16	Family Practice/Peds	57	Yes	149	2.0
17	Internal Medicine/Pediatrics	33	Yes	149	2.0
18	Cardiology	53	Yes	143	1.9
19	Cardiology	62	Yes	134	1.8
20	Internal Medicine/Pediatrics	<u>34</u>	Yes	<u>133</u>	<u>1.8</u>
	Totals	44		4,092	55.0

The Hospital's top 20 admitting physicians accounted for 55% of the Hospital's admissions from January 1, 2001, to December 31, 2001. The average age of these physicians is 44 years, as compared to 45 years for the active medical staff.

## Market Area Analysis

The Hospital's primary and secondary service areas are defined on the basis of zip code, and patient origin statistics are tracked across a six-county region. The Hospital's primary service area is comprised of Hendricks County and accounted for 79.8% of the Hospital's 2001 discharges. The Hospital's secondary service area is comprised of portions of western Marion, northern Morgan and eastern Putnam counties and accounted for 18.4% of the Hospital's 2001 discharges. On the following page is a map of the Hospital's service area.

Patient Origin Data 2001 Discharges	
	Percent of Hospital Totals
Primary Service Area:	
Hendricks County	79.8 %
Secondary Service Area:	
Western Marion County	7.3
Northern Morgan County	3.2
Eastern Putnam County	7.9
Total – Secondary Service Area	18.4%
Other	1.8
Total	100.0 %

## Competing Medical Facilities

Hendricks Community Hospital is the only hospital in its primary service area. Competing hospitals include St. Vincent Hospital (northwestern Marion County) and Clarian Health Care (consisting of Methodist and Indiana University Hospital in downtown Indianapolis). No other hospital achieved more than a 4% market share in Hendricks County. The following table sets forth primary service area inpatient market share data for Hendricks Community Hospital and its significant competitors.

Primary Service Area Inpatient Market Share			
Hospital	Miles from Hospital	Staffed Beds	2000 Market Share
Hendricks Community Hospital	n/a	147	42.5%
St. Vincent's (Main Campus)	27	796	17.7
Clarian (Methodist and I.U. Hospitals)	24	1,083	20.9
Other			18.9
			100.0%

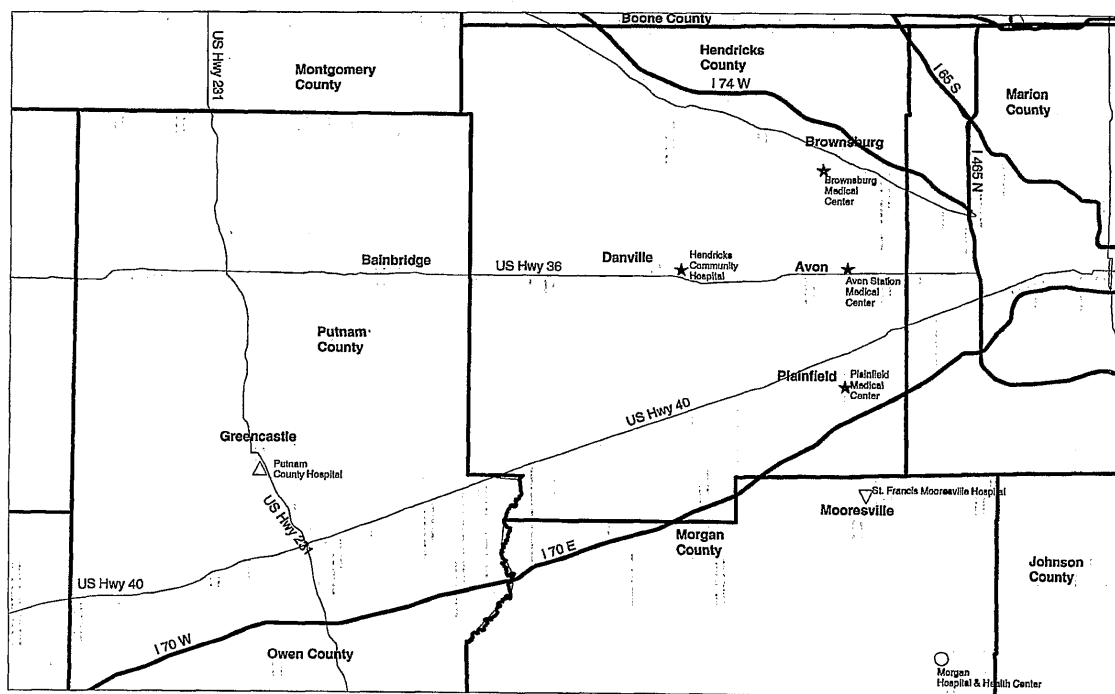
*Source: Indiana Hospital Association, 2000 Inpatient Discharge Studies  
AHA Guide, 2002 Edition  
Estimated staffed beds, St. Vincent's does not separately report campus  
Information*

In late 2001, Clarian Health announced its plans to construct a full-service 75-bed acute care hospital in Avon, Indiana. Construction of this facility commenced in the spring of 2002 and is expected to be completed by late 2003. Avon is located in the far eastern section of Hendricks County, approximately seven miles from the Hospital, and is considered a bedroom community of Indianapolis. While this will be a competing facility, Hospital management believes that a majority of the patients that will utilize this facility are presently seeking health care services in metropolitan Indianapolis.

A factor that has allowed the Hospital to achieve a high market share is its pricing structure. Its average charge per stay has in recent years been below its major competitors. Management believes that this, along with its location, makes it an attractive provider to alternative healthcare delivery systems such as health maintenance organizations (HMO's) and preferred provider organizations (PPO's). Accordingly, Hospital management anticipates increased patient volumes as the push to decrease healthcare costs drives employers to join HMO's and PPO's.

### Hendricks Community Hospital Service Area Map

★ Represents Hendricks Community Hospital medical facilities



## Service Area Characteristics

The 2000 census shows that the population of Hendricks County was 101,429 compared to 75,717 in 1990, an increase of 34%. Hendricks County is predominantly a residential and agricultural community with its economic position closely tied to Indianapolis. The City of Indianapolis has developed a diverse economic base which has been recognized as a stable and attractive locale for new business enterprise. The eastern half of Hendricks County, which is adjacent to Indianapolis, is primarily a residential area, with the majority of residents commuting to employment in the Indianapolis metropolitan area. This sector includes the towns of Plainfield, Brownsburg and Avon. The four Hendricks County townships which border Indianapolis (Brown, Lincoln, Washington and Guilford) make up 70% of the county's total population. The remainder of western Hendricks County is primarily agricultural.

The ten largest employers in Hendricks County are:

<u>Employer</u>	<u>Business</u>	<u>Employees</u>
Cinergy / PSI Energy	utility	1,000
Hendricks Community Hospital	county-owned hospital	950
Brightpoint	technology manufacturing	750
Brownsburg School Corp.	education	613
Avon School Corp.	education	600
Indiana Youth Center	service organization	525
Plainfield School Corp.	education	450
Galyans	retail sales	436
Indiana Boys School	youth reformatory	360
Adesa	auto auction	300

## Unemployment

The unemployment rate for the Indianapolis Metropolitan Statistical Area is consistently lower than the national and state averages. During the past five years, the Hendricks County unemployment rate has been below 2% in each year.

## Malpractice and Other Insurance

The Hospital maintains commercial insurance for its medical malpractice and other corporate needs. The insurance portfolio is part of an overall formalized risk management program that has as its primary purpose the protection of corporate assets in order to maintain the viability of the Hospital. Coverage levels are reviewed regularly and adjusted to reflect current conditions.

The Hospital is qualified as a health care provider under the Indiana Medical Malpractice Act (IC 34-18) (the "Medical Malpractice Act"). The law provides for a mandatory State Patient's Compensation Fund (the "Fund") to which a qualified health care provider contributes a surcharge. The amount of the surcharge is established by the Department of Insurance based on an actuarial program. The amount for each hospital must be sufficient to cover but may not exceed the actuarial risk posed to the Fund by the hospital. For any act of malpractice, the Medical Malpractice Act provides for a maximum recovery of \$1,250,000. A health care provider is liable for up to \$250,000 of the maximum recovery. The excess is paid by the Fund. The effect of this law is to require the Hospital to carry insurance of \$250,000 per occurrence and \$7,500,000 in the annual aggregate for the patient professional liability risks. Various aspects of the Medical Malpractice Act, including the limitations on recovery, have been upheld on constitutional grounds by the Indiana Supreme Court.

The Hospital has an in-house risk manager who works closely with representatives of its insurance carriers. Outside legal defense counsel is used to handle any litigation associated with claims against the Hospital. In addition to the State Compensation Fund, the Hospital carries \$1,000,000 of comprehensive general liability insurance for

liability to patients from fire, lightning, windstorm, hail, explosion, riot and civil commotion, smoke, vandalism, malicious theft and collapse of building. The Hospital also insures certain of its employed physicians in amounts required by the Medical Malpractice Act. Other contract physicians are required to carry their own malpractice insurance and to qualify as health care providers under the Medical Malpractice Act.

The Hospital maintains other insurance coverages (property and casualty, umbrella liability, etc.) in amounts that are customary for hospitals of a similar size and location.

### **Litigation**

The nature of the Hospital's business generates a certain amount of litigation arising in the ordinary course of business. Hospital management, after discussion with legal counsel, believes that the ultimate result of these legal proceedings and claims will not have a materially adverse effect upon the Hospital's financial condition or results of operations and, in the opinion of the management, there are no proceedings pending or threatened to which the Hospital is or may be a party, or to which its property is or may be subject, and which, if adversely determined against the Hospital, would have a materially adverse effect upon the Hospital's financial condition or results of operations.

### **Corporate Compliance**

In its efforts to improve the operations of the Hospital, the Board adopted a formal Compliance Program during 1998. Similar to the quality improvement projects for clinical issues, the Compliance Program is focused on improving compliance with government rules and regulations (such as tax laws, employment laws, environmental laws, Medicare and Medicaid regulations, etc.). The purpose of the Compliance Program is to prevent, detect, and correct possible violations of federal, state and local laws and regulations as well as possible violations of Hospital policies and procedures. The Compliance Program encompasses all functions and departments of the Hospital and its subsidiaries. A Corporate Compliance Committee was formed in 1998 to assist in the development, implementation and on-going operations of the Compliance Program.

### **Employees**

As of December 31, 2001, the Hospital employed approximately 950 full-time, part-time and temporary employees, which equates to 653 full-time equivalents. The Hospital provides a range of benefits that are competitive with other hospitals in the central Indiana market place. None of the Hospital's employees are represented by a labor organization.

### **Pension Plan**

The Hospital has a noncontributory defined benefit pension plan covering substantially all of its employees. Contributions to the plan are funded as required under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Based on a determination from independent actuaries, net assets available for benefits exceeded the actuarial present value of accumulated plan benefits by \$9,666,000 as of December 31, 2001.

### **Volunteer Programs**

Hendricks Community Hospital has an active volunteer force of 204 individuals who gave over 37,000 hours of service in 2001. Volunteers are used in nearly all areas of the Hospital. Through the Guild's various fundraising activities during 2001, a contribution of \$35,000 was made to the Hospital for capital equipment purchases.

## Historical Utilization

Various utilization statistics for inpatient and ancillary services of the Hospital are presented in the following table:

### Hendricks Community Hospital Historical Utilization Statistics

<u>Category</u>	For the year ended December 31,		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Beds in Service – Adult	127	127	127
Adult Patient Days	24,343	25,222	25,147
Adjusted Patient Days	62,083	66,068	68,753
Adult Inpatient Admission	6,320	6,560	6,542
Newborn Days	2,111	2,093	1,902
Deliveries	1,008	998	907
Adult Average Length of Stay	3.9	3.8	3.8
Occupancy Percentage – Adult	52.5%	54.3%	54.2%
Average Daily Census – Adult	67	69	69
Emergency Room Visits	26,450	27,693	27,644
Surgical Cases – Inpatient	1,551	1,765	1,888
Surgical Cases – Outpatient	3,601	3,694	3,782
Radiology Procedures	52,316	55,618	57,019
Laboratory Procedures	346,533	362,340	372,676

## Statement of Revenues and Expenses

The following summary of revenues and expenses of the Hospital for the years ended December 31, 1999 and 2000 have been derived from the audited financial statements appearing at the end of this Appendix A. The summary of revenues and expenses for those years should be read in conjunction with the audited financial statements and notes thereto appearing herein. The summary for 2001 is based on unaudited financial statements prepared by Hospital management on a basis consistent with its audited financial statements.

**Hendricks Community Hospital  
Summary of Revenues and Expenses**

(in thousands of dollars)

	<u>1999</u>	<u>2000</u>	(Unaudited) <u>2001</u>
Net patient service revenue	\$67,112	\$78,813	\$85,230
Other revenue	2,238	2,088	2,274
Total revenue	<u>69,350</u>	<u>80,901</u>	<u>87,504</u>
Operating expenses:			
Salaries and Wages	28,762	32,491	35,423
Employee Benefits	4,945	6,519	7,700
Supplies and Other	24,850	26,330	32,131
Depreciation	4,808	5,190	5,822
Interest	1,182	1,139	<b>301</b>
Total operating expenses	<u>64,547</u>	<u>71,669</u>	<u>81,377</u>
Operating income	4,803	9,232	6,127
Nonoperating gains	<u>1,616</u>	<u>2,282</u>	<u>2,099</u>
Excess revenue and gains over expenses before extraordinary items	6,419	11,514	8,226
Extraordinary items:			
Impairment loss on leased property	-	(1,408)	-
Donation on property exchange	-	(316)	-
	<u>-</u>	<u>(1,724)</u>	<u>-</u>
Excess revenue and gains over expenses	<u><u>\$ 6,419</u></u>	<u><u>\$ 9,790</u></u>	<u><u>\$ 8,226</u></u>
Excess Margin	9.3%	12.0%	9.4%
Return on Equity	7.9%	10.5%	8.2%

**Management's Discussion of Financial Results**

The Hospital's patient service revenue increased by 20.7% in 2000 and 11.5% in 2001. This revenue growth is attributable principally to the rapid growth in outpatient service utilization and to price increases. Deductions from revenue represent charges that will not be collected primarily due to contractual obligations. Deductions increased 28.4% in 2000 and 19.0% in 2001 primarily due to decreasing Medicare reimbursements and rate increases greater than insurance company contracted amounts.

Salaries and wages increased 13.6% in 2000 and 9.0% in 2001. These increases were due to both increased staffing levels necessitated by volume increases and pay raises necessary to remain competitive with wage rates in the Indianapolis market. The rise in employee benefit expenses is attributable to a large increase in employee health insurance costs. Annual changes to the health insurance plan to increase deductibles and co-insurance and employee premiums are made to limit future increases in employee health costs. Supplies and other expenses increased by 19.0% in 2001 reflecting inflation and increased volume of ancillary procedures.

Nonoperating revenue consists primarily of investment income on operating funds and Board-designated investments. The decrease in 2001 was due to lower investment interest rates and usage of Board-designated funds.

## Sources of Patient Revenue

Payments on behalf of patients are made to the Hospital by commercial insurance carriers, by the federal government under the Medicare program, by the state government under the Medicaid program, and by patients from their own personal resources. The percentages of patient revenues by payor for the fiscal years ended December 31, 1999, 2000 and 2001 are as follows:

<u>Source of Payment</u>	<u>Percent of Revenue</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Medicare	36	36	36
Medicaid	4	4	5
Blue Cross	10	10	14
HMO's	22	21	16
Other Commercial	23	24	23
Self Pay	<u>5</u>	<u>5</u>	<u>6</u>
Total	100	100	100

As outlined in the above table, the Hospital's payor mix has remained stable over the past three years.

Approximately 90% of nongovernmental revenues are subject to discounts. Because of the Hospital's proximity to Indianapolis, the Hospital feels that it is important to be involved in the key metropolitan area HMO's and PPO's. Rate increases for the last four years were 2% in 1998; 2% in 1999; 10% in 2000; and 7% in 2001. An increase of 8% was implemented January 1, 2002 for the calendar year of 2002.

## Historical and Pro-Forma Debt Service Coverage

The following table summarizes the historical and pro-forma debt service coverage for the years ended December 31, 1999, 2000 and 2001.

	Historical Debt Service Coverage for Years Ended December 31,		Debt Service Coverage For Year Ended December 31, 2001	
	<u>1999</u>	<u>2000</u>	<u>Historical</u>	<u>Pro-Forma</u>
Maximum Annual Debt Service on Long Term Debt:				
Series 1992 A Bonds	1,927	1,927	1,927	-
Series 2002 Bonds*	-	-	-	4,450
Amounts Available to Pay Debt Service:				
Excess revenue and gains over expenses	6,419	11,570	8,226	8,226
Interest	1,182	1,139	301	301
Depreciation	4,808	5,190	5,822	5,822
Total	12,409	17,899	14,349	14,349
Historical and Pro-forma Debt Service Coverage	6.4 x	9.3 x	7.4 x	3.2 x

\*Estimated, subject to change.

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**APPENDIX C**

**FORM OF BOND COUNSEL OPINION**

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July \_\_, 2002

Indiana Bond Bank  
Indianapolis, Indiana

Re: Indiana Bond Bank Special Program Bonds, Series 2002 D (Hendricks  
Community Hospital Financing Program)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of its Special Program Bonds, Series 2002 D (Hendricks Community Hospital Financing Program), dated July \_\_, 2002 (the "Bonds"), in the aggregate principal amount of \$60,000,000, pursuant to Indiana Code 5-1.5, as amended, and a Trust Indenture between the Issuer and National City Bank, as trustee (the "Trustee"), dated as of June 1, 2002 (the "Indenture"). We have examined the law and such certified proceedings for the authorization, issuance and sale of the Bonds and such other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture, the certified proceedings for the authorization, issuance and sale of the Bonds and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, the Qualified Entity (as defined in the Indenture) and others, including certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificate of the Qualified Entity, dated the date hereof, without undertaking to verify the same by independent investigation. We have relied upon the opinion of Bose McKinney & Evans, Indianapolis, Indiana, counsel to the Issuer, dated the date hereof, as to the matters stated therein.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under Indiana Code 5-1.5, with the corporate power to execute and deliver the Indenture and to issue, execute and deliver the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).
3. The Indenture has been duly authorized, executed and delivered by the Issuer, and

is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the "Code"), the interest on the Bonds is excluded from gross income for federal income tax purposes. The opinion set forth in the preceding sentence is subject to the condition that the Issuer and the Qualified Entity comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Each of the Issuer and the Qualified Entity has covenanted or represented that it will comply with such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Except for the opinion expressed in paragraph 5 hereof, we express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings.

6. Interest on the Bonds is exempt from income taxation in the State of Indiana (the "State") for all purposes except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement dated June 5, 2002, or any other offering material relating to the Bonds.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that in our opinion the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

Very truly yours,

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**APPENDIX D**

**SUMMARY OF CERTAIN PROVISIONS  
OF THE PRINCIPAL DOCUMENTS**

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## **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

*The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.*

### **Accounts and Reports**

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Program and the Funds and Accounts established by the Indenture. Such books and all other books and papers of the Bond Bank and all Funds and Accounts will, at all reasonable times, be subject to the inspection of the Trustee and the owners of an aggregate of not less than 5% in principal amount of Bonds then outstanding or their representatives duly authorized in writing.

Before the twentieth day of the month following the end of each six-month period, commencing with the period ending December 31, 2002, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding six-month period.

### **Preservation of Tax Exemption for the Series 2002 D Bonds**

In order to assure the continuing exclusion of interest on the Series 2002 D Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees to take all actions and not to fail to take any actions necessary in order to preserve and protect such exclusion. In carrying out this covenant, the Bond Bank agrees to comply with a memorandum of compliance with Code Section 148(f) (the "Memorandum of Compliance") concerning the provisions of the Code necessary to preserve and protect such exclusion. This Memorandum of Compliance may be amended only upon receipt by the Trustee of an Opinion of Bond Counsel to the effect that compliance by the Bond Bank with the Memorandum of Compliance, as amended, will not adversely affect the exclusion of interest on the Series 2002 D Bonds from gross income for purposes of federal income taxation. See the caption "OPERATION OF FUNDS AND ACCOUNTS--Rebate Fund."

### **Covenants Concerning the Bonds**

In order to provide for the payment of the principal of and interest on Bonds and of Program Expenses, the Bond Bank will promptly and in a sound and economical manner consistent in all respects with the Act, the Indenture and sound banking practices and principles (i) do all acts and things as will be necessary to receive and collect Revenues (including enforcement of the prompt collection of all arrears on the Series 2002 Note), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect its rights with respect to the Loan Agreement and the Series 2002 Note and to enforce all terms, covenants and conditions of the Loan Agreement and the Series 2002 Note. Whenever necessary to provide for the payment of debt service on the Series 2002 D Bonds, the

Bond Bank will also commence appropriate remedies with respect to the Loan Agreement and the Series 2002 Note under which the Qualified Entity is in default.

### **Bond Bank Covenants with Respect to the Loan Agreement and the Series 2002 Note**

With respect to the Loan Agreement and the Series 2002 Note, the Bond Bank covenants as follows:

(a) The Bond Bank will not permit or agree to any material change in the Loan Agreement and the Series 2002 Note unless the Bond Bank first supplies the Trustee with a Cash Flow Certificate giving effect to such change.

(b) The Bond Bank will enforce or authorize or require the enforcement of all remedies available to the Bond Bank under the Loan Agreement and the Series 2002 Note, unless the Bond Bank provides the Trustee with a Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies provided, however, that all decisions as to the enforcement of such remedies will be within the Trustee's sole discretion.

(c) The Bond Bank will not sell or dispose of the Series 2002 Note unless the Bond Bank provides the Trustee with a Cash Flow Certificate giving effect to such sale or disposition.

(d) The Bond Bank, to the extent such action would not adversely affect the validity of the Note, it will instruct the Trustee to pursue the remedy set forth in Section 5-1.5-8-5 of the Act, as amended from time to time, and the Trustee covenants and agrees to follow such instructions in accordance with the Act.

### **Monitoring Investments**

The Bond Bank covenants and agrees to review regularly the investments held by the Trustee in the Funds and Accounts under the Indenture for the purpose of assuring that the Revenues derived from such investments are sufficient to pay, together with other anticipated Revenues, the debt service on all Bonds outstanding under the Indenture.

### **Bond Bank's Certification**

The Bond Bank covenants that if a deficiency in the Debt Service Reserve Fund is projected for the annual budget of the Bond Bank, the Chairman of the Board of Directors of the Bond Bank will certify such projected deficiency to the State General Assembly on or before August 1 of the Fiscal Year in which the deficit is projected to occur. Further, regardless of whether any such deficiency was projected to occur in the annual budget and regardless of the time at which such deficiency occurs or is projected to occur, the Bond Bank covenants that it will take all actions required or allowed under the Act, as amended from time to time, to certify to the State General Assembly any deficiency or projected deficiency in the Debt Service Reserve Fund.



## **Annual Budget**

The Bond Bank will adopt and file with the Trustee and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 30 of each year. The annual budget will be open to inspection by any owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 30, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

## **Investment Covenants**

The Bond Bank covenants and agrees that it will not take any action or fail to take any action with respect to the investment of the proceeds of the Series 2002 D Bonds, or with respect to the investment or application of any payments under the Loan Agreement, the Series 2002 Note or any other agreement or instrument entered into in connection therewith or with the issuance of the Series 2002 D Bonds, including but not limited to the obligation, if any, to rebate certain funds to the United States of America, which would result in constituting any Series 2002 D Bonds “arbitrage bonds” within the meaning of Section 148 of the Code. The Bond Bank further agrees that it will not act in a manner which would adversely affect the excludability from gross income tax for federal income tax purposes of the interest on the Series 2002 D Bonds.

## **Discharge of Indenture**

Except as provided in this paragraph, if payment or provision for payment is made to the Trustee of the whole amount of the principal of, and interest due and to become due on all of the Series 2002 D Bonds then outstanding under the Indenture at the times and in the manner stipulated in the Indenture, and there is paid or caused to be paid to the Trustee all sums of moneys due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of the Series 2002 D Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Series 2002 D Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Series 2002 D Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Series 2002 D Bonds.

Any Series 2002 D Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest thereon to its due date, either (i) has been made or has been caused to be made in accordance with its terms or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (A) moneys sufficient to make such payment, (B) Governmental Obligations, which shall not contain provisions permitting the redemption thereof or the option of the issuer thereof, and maturing as to principal and interest in such amounts and, at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (C) a combination of such moneys and Governmental Obligations, and (b) all necessary and proper fees and expenses of the Trustee

pertaining to the Series 2002 D Bonds, and the amount, if any, required to be rebated to the United States of America shall have been paid or deposited with the Trustee.

## **Defaults and Remedies**

Any of the following events constitutes an “Event of Default” under the Indenture:

(a) The Bond Bank defaults in the due and punctual payment of the principal of any Series 2002 D Bond (whether at stated maturity or on any date fixed for redemption) or of any interest on any Series 2002 D Bond;

(b) The Bond Bank defaults in performing or observing any of its other covenants, agreements or conditions contained in the Indenture or in the Series 2002 D Bonds and such default continues for a period of 60 days after the Bond Bank receives written notice of such default by the Trustee;

(c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture or in any instrument furnished in compliance with or in reference to the Indenture is false or misleading in any material respect when made and there has been a failure to remedy such Event of Default within 60 days after the Bond Bank has been given notice of such default by the Trustee;

(d) The Bond Bank fails to make remittances to the Trustee required by the Indenture within the time limits prescribed in the Indenture;

(e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within 60 days after such filing;

(f) The Bond Bank files a petition in voluntary bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;

(h) The Bond Bank fails to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement within 120 days after the end of the calendar year of the Bond Bank during which a deficiency occurs;

(i) The Bond Bank for any reason is rendered incapable of fulfilling its obligations under the Indenture for any reason; or

(j) A default occurs under the Loan Agreement or an “Event of Default” occurs under the Master Indenture.

No default under subparagraphs (b) or (c) above will constitute an Event of Default until actual notice of the default by registered or certified mail has been given to the Bond Bank by the Trustee or by the owners of not less than 25% in aggregate principal amount, of all Bonds then outstanding and the Bond Bank has had 60 days after receipt of the notice to correct such default or cause such default to be corrected, and shall not correct such default or cause such default to be corrected within such period. If such default is correctable but cannot be corrected within such period, it will not constitute an Event of Default if corrective action is instituted by the Bond Bank within the applicable period and diligently pursued until the default is corrected. Any default cured under this paragraph will not constitute an Event of Default.

Upon the occurrence and continuance of an Event of Default, the Trustee will notify the owners of Bonds of such Event of Default by registered or certified mail and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity or by statute to enforce the payment of the principal of and interest on outstanding Series 2002 D Bonds, including any and all such actions arising under or by reason of the Loan Agreement or the Series 2002 Note;

(b) The Trustee may by action at law or suit in equity require the Bond Bank to account as if it were the trustee of an express trust for the owners of the Series 2002 D Bonds and may then take such action with respect to the Loan Agreement or the Series 2002 Note as the Trustee deems necessary or appropriate and in the best interest of the owners of Bonds, subject to the terms of the Loan Agreement or the Series 2002 Note;

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the owners of the Series 2002 D Bonds under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate, or any part thereof, under the Indenture and the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer; and

(d) The Trustee by notice in writing to the Bond Bank and the State Attorney General, may declare the principal of and accrued interest on the Series 2002 D Bonds then outstanding to be immediately due and payable.

If an Event of Default has occurred and is continuing, and if requested to do so by the owners of 25% or more in aggregate principal amount of outstanding Series 2002 D Bonds and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights, remedies and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interests of the owners of Bonds.

The owners of a majority in aggregate principal amount of outstanding Series 2002 D Bonds will have the right, at any time during the continuance of an Event of Default, by a written

instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

### **Waivers of Events of Default**

Notwithstanding the rights of the owners of the Series 2002 D Bonds discussed above, the Trustee at its discretion may waive any Event of Default and its consequences and may rescind any declaration of maturity of all the Series 2002 D Bonds, and must do so upon the written request of the owners of (i) two-thirds in aggregate principal amount of all the Series 2002 D Bonds then outstanding, in the case of a default in the payment of principal or interest on the Series 2002 D Bonds or (ii) a majority in aggregate principal amount of all Series 2002 D Bonds then outstanding, in the case of any other Event of Default. However, there may not be waived (A) any Event of Default in the payment of the principal of any outstanding Series 2002 D Bond at the specified date of maturity or (B) any Event of Default in the payment when due of the interest on any outstanding Series 2002 D Bond unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Series 2002 D Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then and in every such case the Bond Bank, the Trustee and the owners of the Series 2002 D Bonds will be restored to their former respective positions and rights under the Indenture. However, no waiver or rescission will extend to any subsequent or other Event of Default or impair any rights consequent thereon.

### **Rights and Remedies of Owners of Bonds**

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or any other remedy under the Indenture, unless (i) an Event of Default has occurred and the owners of not less than 25% in aggregate principal amount of the Series 2002 D Bonds then outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, (ii) such owners of the Series 2002 D Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (iii) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal and ratable benefit of the owners of all outstanding Series 2002 D Bonds. However, nothing contained in the Indenture will affect or impair the right of any owner of the Series 2002 D Bonds to enforce the payment of the principal of and interest on any Series 2002 D Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Series 2002 D Bonds to the respective owners of the Series 2002 D Bonds at the time and place, from the source and in the manner expressed in the Series 2002 D Bonds.

## **Supplemental Indentures**

The Bond Bank and the Trustee may, without the consent of, or notice to, any of the owners of the Series 2002 D Bonds, enter into an indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the owners of the Series 2002 D Bonds any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the owners of the Series 2002 D Bonds or the Trustee or either of them, or to make any change which, in the judgment of the Trustee in accordance with the standards established in the Indenture, does not materially and adversely affect the interest of the owners of the Series 2002 D Bonds and does not otherwise require the consent of all the owners of outstanding Series 2002 D Bonds under the Indenture;
- (c) To subject to the lien and pledge of the Indenture for the benefit and security of the owners of the Series 2002 D Bonds then outstanding additional Revenues, properties or collateral;
- (d) To modify, amend or supplement the Indenture or any supplemental indenture in such a manner to permit the qualification of the Indenture or supplemental indenture under the Trust Indenture Act of 1939, as amended, or any other similar federal statute hereafter in effect or to permit the qualification of the Series 2002 D Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, in connection therewith, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939, as amended or similar federal statute; provided, that any supplemental indenture referred to in this paragraph shall not, in the judgment of the Trustee, which may rely on the opinion of counsel, be to the prejudice of the owners of any of the Series 2002 D Bonds;
- (e) To provide for the issuance of bearer bonds (which bearer bonds may be registrable as to principal only and exchangeable for fully registered bonds) in exchange for the fully registered Bonds originally authorized to be issued under the Indenture, and to provide all necessary and appropriate supplement(s) to the Indenture in connection therewith. However, no such supplement(s) shall be permitted pursuant to this paragraph unless the Trustee and the Bond Bank receive an unqualified opinion of Bond Counsel to the effect that the issuance of bearer bonds will not cause interest on the Series 2002 D Bonds to cease to be excludable from gross income for purposes of federal income taxation;
- (f) To evidence the appointment of a co-trustee, successor Trustee, successor Bond Registrar or successor paying agent;
- (g) To provide for the issuance of Refunding Bonds; and

(h) To modify, amend, or supplement the Indenture or any supplemental indenture in any manner that will not materially adversely affect the rights of the owners of the Bonds.

With the exception of supplemental indentures for the purposes set forth in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority of the principal amount of the Series 2002 D Bonds then outstanding which are affected (other than any such Bonds held by the Bond Bank) will have the right, from time to time, to consent to and approve the execution by the Bond Bank and the Trustee of such supplemental indenture or indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture. However, no supplemental indenture may permit or be construed as permitting, without the consent of the owners of all then-outstanding Series 2002 D Bonds, (i) an extension of the maturity of the principal of or the interest on, or a change in the redemption dates of, any Series 2002 D Bonds, or (ii) a reduction in the principal amount of any Series 2002 D Bond or a change in the redemption premium or the rate of interest on any Series 2002 D Bond, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Series 2002 D Bonds the owners of which are required to consent to any such supplemental indenture, or (v) the creation of any lien on the Trust Estate or any part thereof pledged under the Indenture prior to or on a parity with the lien of the Indenture, other than a lien ratably securing all of the Series 2002 D Bonds at any time outstanding or (vi) any amendment or modification of the trusts, powers, rights, obligations, duties, remedies, or immunities of the Trustee without the written consent of the Trustee.

### **Provisions Relating to Bond Insurance Policy**

Notwithstanding any provisions of the Indenture to the contrary, so long as the Bond Insurance Policy remains in effect, Ambac Assurance will be recognized as the sole holder of the Series 2002 D Bonds, and as such shall have the right to control all remedies upon any default, shall be entitled to certain notices provided to Bondholders, and shall have consent rights concerning any supplemental indentures to the Indenture. In the event that Ambac Assurance is required to make payments of principal or interest on the Series 2002 D Bonds, the Series 2002 D Bonds will remain outstanding under the Indenture and will not be deemed defeased or otherwise satisfied thereunder, and Ambac will be subrogated to the rights of the registered owners of such Series 2002 D Bonds.

### **SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT AND THE SERIES 2002 NOTE**

*The following is a summary of certain additional provisions of the Loan Agreement and the Series 2002 Note otherwise in this Official Statement. The Bond Bank and the Board may amend the provisions of the Loan Agreement subject to restrictions established in the Indenture. The Summary is qualified in its entirety by reference to the Loan Agreement and the Series 2002 Note.*

## **General**

Under the Loan Agreement, the Bond Bank will loan to the Board a portion of the proceeds of the Series 2002 D Bonds for the purposes of the Project. As evidence of its obligation to repay such loan, together with interest and redemption premium, if any, thereon, the Board will issue and deliver to the Bond Bank the Series 2002 Note. The Series 2002 Note will be issued in an amount equal to the aggregate principal amount of the Series 2002 D Bonds, will be payable in installments at the same time, maturities and mandatory redemption terms of the Series 2002 D Bonds (subject to certain credits), will be subject to optional redemption at the same times and with the same premiums, if any, as are applicable to the Series 2002 D Bonds, and shall provide for payments of interest equal to, and payable at the same times as, the payments of interest on the Series 2002 D Bonds allocable to the Series 2002 Note (subject to certain credits).

Under the Master Indenture, the Board will grant a security interest in its Net Revenues as security for the making of payments on the Series 2002 Note. Such security interest will attach to all Notes and Guaranties, including the Series 2002 Note, issued by the Board and any other Obligated Issuer. The Board may make any disbursement, expenditure or transfer from Net Revenues which is made in accordance with the Loan Agreement and the Master Indenture.

The Series 2002 Note will be registered in the name of the Trustee, and the Trustee will use the payments made on such Series 2002 Note to pay the debt service on the Series 2002 D Bonds. Except as provided in the Loan Agreement and the Indenture, the loan to be made under the Loan Agreement is to be evidenced solely by the Series 2002 Note and the obligation to make loan repayments does not exist separate or independent of the Series 2002 Note. In addition, the Loan Agreement contains covenants of the Board relating to its tax-exempt status, indemnification of the Bond Bank and the Trustee, limitation on indebtedness, and the application of the proceeds of the sale of the Series 2002 D Bonds.

## **Defaults and Remedies**

Upon (1) failure of the Board to pay when due any payment on the Series 2002 Note or (2) failure of the Board to pay when due any other payment required to be made under the Loan Agreement or to observe or perform any covenant, condition or agreement on its part to be observed or performed thereunder (other than payments on the Series 2002 Note) and continuation of such failure for a period of thirty (30) days after written notice (specifying such failure and requesting that it be remedied) is given to the Board by the Bond Bank or the Trustee, the Bond Bank (or the Trustee) may take any one or more of the following steps: (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bond Bank, and require the Board to carry out any agreements with or for the benefit of the Bondholders and to perform its duties under the Act or the Loan Agreement; (ii) by action or suit in equity require the Board to account as if it were the trustee of an express trust for the Bond Bank; (iii) by action or suit in equity require the Board to enjoin any acts or things which may be unlawful or in violation of the rights of the Bond Bank; or (iv) upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bondholders

have appointed a receiver or receivers of the trust estate, with such powers as the court making such appointment shall confer.

In case any proceeding taken by the Bond Bank or the Trustee on account of any failure to perform under the Loan Agreement shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Bond Bank or the Trustee, then and in every case the Bond Bank and the Trustee shall be restored to their former positions and rights thereunder, respectively, and all rights, remedies and powers of the Bond Bank and the Trustee shall continue as though no such proceeding had been taken.

No remedy conferred upon or reserved to the Bond Bank (or the Trustee) by the Loan Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any failure to perform shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient.

In the event that any agreement contained in the Loan Agreement shall be breached by either party and such breach shall thereafter be waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach thereunder. In view of the assignment of the Bond Bank's rights in and under the Loan Agreement to the Trustee under the Indenture, the Bond Bank shall have no power to waive any failure to perform under the provisions described in this paragraph without the consent of the Trustee. Any and all remedies relating to a default in the payment of principal, premium, if any, or interest on the Series 2002 Note shall be governed by the Master Indenture.

### **SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE**

*The following summary is a summary of certain additional provisions of the Master Indenture nor otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Master Indenture.*

#### **General**

The Series 2002 Note will be issued pursuant to the Master Indenture. The Master Indenture will entitle each holder of a Note issued thereunder, including the Trustee as holder of the Series 2002 Note, to the protection of the covenants, restrictions and other obligations imposed upon the Board contained therein.

Each Note or series of Notes issued as security for an issue of Related Bonds will contain such provisions for prepaying as will permit prepayment or redemption prior to maturity of such Related Bonds in accordance with their terms. The number of Notes or series of Notes that may be issued by an Obligated Issuer under the Master Indenture is not limited. Indebtedness not evidenced by a Note may be incurred by an Obligated Issuer. An Obligated Issuer will agree not to incur any additional indebtedness other than the Additional Indebtedness described below



under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness."

### **Payment of Principal, Premium, if any, and Interest**

Each of the Board and any other Obligated Issuer agree to punctually pay the principal of and the premium, if any, and interest on each Note issued by it, and to be jointly and severally obligated with each other member of the Obligated Group to duly and punctually pay the principal of and the premium, if any, and interest on each Note issued by any other member of the Obligated Group, on the dates, at the times and at the place and in the manner provided in such Notes, the Supplemental Master Indentures and the Master Indenture when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, according to the true intent and meaning hereof.

Notwithstanding the foregoing, or any other provision of the Master Indenture, any obligation of the Board arising out of any Notes or the Master Indenture shall be payable solely out of the Net Revenues and shall not constitute a pledge of the faith or credit of the County or the State or an indebtedness or charge against the general credit or taxing powers of the County or the State within the meaning of any constitutional or statutory provision.

No person shall have any right to have the County or the State to levy an taxes or appropriate any funds for the payment of any obligation arising out of any Notes or the Master Indenture.

### **Covenant as to Corporate Existence and Maintenance of Properties**

Each of the Board and any other Obligated Issuer covenants that:

(a) It will preserve its corporate existence, subject to certain provisions regarding consolidation and merger and all its rights, including, if applicable, its status as a Tax-Exempt Organization, and licenses to the extent necessary or desirable in the operation of its business and affairs to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualification and where the failure to so qualify would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group in each case eliminating all material balances and transactions between or among members of the Obligated Group; provided, however, that this covenant shall not be construed to obligate it to retain or preserve any of its rights or licenses (i) no longer used or (ii) if used, the surrender of which would not, in the reasonable judgment of its Governing Body, have a material adverse effect upon its Net Income Available for Debt Service;

(b) It will at all times cause its business to be carried on and conducted in an efficient manner and its Property to be maintained, preserved and kept in good repair, working order and condition, reasonable wear and tear excepted, and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing herein contained shall be construed (i) to prevent it from ceasing to operate any portion of its Property if, in the reasonable judgment of its Governing Body, it is advisable not to operate the same for the time being or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect

such a sale or other disposition or (ii) to obligate it to retain, preserve, repair, renew or replace any property, leases, rights, privileges or licenses no longer used or, in the reasonable judgment of its Governing Body, no longer deemed useful in the conduct of its business;

(c) It will conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States of America and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property to the extent that the failure to so comply, observe or conform would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group in each case eliminating all material balances and transactions between or among members of the Obligated Group; provided, however, that this covenant shall not require it to comply with, observe and conform to any such law, order, regulation or requirements so long as the validity thereof is contested in good faith by appropriate proceedings which operate during the pendency of which to stay or otherwise prevent the enforcement of such law, order, regulation or requirements and the sale, forfeiture or loss of any of its Property in connection therewith;

(d) It will promptly pay or cause to be paid all lawful taxes, governmental and utility charges and assessments at any time levied, assessed or incurred upon or against or by it or its Property to the extent that the failure to so pay would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group, in each case eliminating all material balances and transactions between or among members of the Obligated Group; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments by appropriate proceedings which operate during the pendency of which to stay or otherwise prevent the collection of or other realization upon the tax, charge or assessment so contested and the sale, forfeiture or loss of any of its Property to satisfy the same; provided, further, that, if any such tax, charge or assessment may be paid in installments, then its obligations under this paragraph shall be limited to the payment of such installment by the due date thereof.

(e) It will promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable to the extent that the failure to so satisfy and discharge would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group in each case eliminating all material balances and transactions between or among members of the Obligated Group, other than any obligation or Indebtedness whose validity, amount or collectability is being contested by it in good faith by appropriate proceedings which shall operate during the pendency of which to stay or otherwise prevent the collection of or other realization upon the item so contested and the sale, forfeiture or loss of any of its Property to satisfy the same;

(f) It will at all times comply with all terms, covenants and provisions contained in any Mortgages at such time existing upon its Property or any part thereof securing any of its Indebtedness and pay or cause to be paid or to be renewed, refunded or extended all of its Mortgage Indebtedness as and when the same become due and payable to the extent that the

failure to so comply, pay, renew, refund or extend would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group in each case eliminating all material balances and transactions between or among members of the Obligated Group; and

(g) It will:

(i) Procure and maintain all necessary licenses and permits for operation of the Hospital;

(ii) Maintain accreditation of the Hospital with the Joint Commission on Accreditation of Health Care Organizations (or any successor thereto); and

(iii) Maintain the status of the Hospital as a provider of health care services eligible for payment or reimbursement under the Medicare, Medicaid, Blue Cross-Blue Shield, commercial and equivalent insurance programs, including other federal or state programs substituted in lieu thereof or supplementary thereto;

provided, however, that it need not comply with this paragraph if and to the extent that its Governing Body has determined in good faith, evidenced by a resolution thereof, that such compliance is no longer in the best interests of such Issuer and that lack of such compliance would not materially impair the ability of such Issuer to pay its Indebtedness when due.

The provisions of paragraph (b) above are subject to the following limitations: if by reason of force majeure the Board or any other Obligated Issuer is unable in whole or in part to carry out the agreements on its part contained in said paragraph (b), it shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein includes, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of any state or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery; transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the discretion of such Issuer, and such Issuer will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of such Issuer, unfavorable to such Issuer. Nothing contained in this paragraph affects the obligations of the Board or any other Obligated Issuer to make payments or notes, which obligations shall be absolute and unconditional.

## **Insurance**

Each of the Board and any other Obligated Issuer will maintain, or cause to be maintained, insurance covering such risks and in such amounts as, in its judgment, is adequate to protect it and its Properties and operations. The insurance required to be maintained shall be subject to the review of an Independent Insurance Consultant, and each of the Board any other

Obligated Issuer shall follow any recommendations of the Independent Insurance Consultant to the extent feasible.

### **Self Insurance**

Before the Board or any other Obligated Issuer may enter into a program of self insurance against any particular risk for which it is not on the date of the Master Indenture self-insuring, it shall receive a certificate from an Independent Insurance Consultant to the effect that (i) such self insurance program will not disqualify the Board or such other Obligated Issuer for reimbursement under Medicare or Medicaid programs or any governmental programs providing similar benefits and (ii) adequate reserves created by the Board or such other Obligated Issuer for such self insurance program are deposited and maintained with an independent corporate trustee if recommended by the Independent Insurance Consultant, unless such deposits are not a necessary requirement for reimbursement under the governmental programs referred to in clause (i) hereof and regulations thereunder then in effect. If the Board or any other Obligated Issuer enters into a program of self-insurance, the Board or such Obligated Issuer will: (a) provide the Master Trustee annually a written evaluation with respect to such self-insurance program by an Independent Insurance Consultant, which evaluation shall contain or be accompanied by a recommendation of an independent actuary as to what funding levels will be adequate to protect the Board or such Obligated Issuer against such claims; (b) maintain with an independent corporate trustee such reserves are recommended by the Independent Insurance Consultant; (c) provide the Trustee an Officer's Certificate showing compliance with clause (b) hereof; and (d) maintain a risk management and claims management program pursuant to such self insurance program.

### **Restrictions as to Creation of Mortgages**

The Board and each other Obligated Issuer agree that it will not create or suffer to be created or exist any Mortgage upon Property now owned or hereafter acquired by it, other than Permitted Encumbrances, without effective provision being made, in each instance and by the instrument creating such Mortgage, whereby each series of Notes and each Guaranty issued and Outstanding hereunder are directly secured thereby equally and ratably with the Indebtedness to be issued and secured by such Mortgage.

Permitted Encumbrances shall consist of the following:

(i) Liens arising by reason of good faith deposit with the Board or any other Obligated Issuer in connection with tenders, leases of real estate, bids or contracts (other than contracts or the payment of money), deposits by the Board or any other Obligated Issuer to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Board, any other Obligated Issuer, any Insurance Subsidiary or any Subsidiary to

maintain self insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits for companies participating in such arrangements;

(iii) Any judgment lien against the Board or any other Obligated Issuer or any Subsidiary so long as the finality of such judgment is being contested and execution thereon is stayed and so long as such judgment lien will not materially interfere with or impair the operations of the Obligated Group of the Operating Assets;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grants, license, permit or provision of law, affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof or (2) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property, (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents or resulting from governmental regulations on the use of Property, and other governmental and similar charges and any liens of mechanics, materialmen and laborers for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereof is stayed, (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title of any Property which do not materially and adversely affect the value thereof, (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such property in any manner, which rights do not materially and adversely affect the value thereof and, (E) to the extent that it affects title to any Property, this Indenture;

(v) Any liens listed as Permitted Encumbrances on Exhibit A to the Master Indenture, provided that no such lien may be extended or renewed, or modified to cover additional Property or additional Indebtedness;

(vi) Encumbrances arising from grants, loans or guarantees of the United States of America pursuant to 42 U.S.C. § 291 *et seq.* or 42 U.S.C. § 300 *et seq.* and other encumbrances arising from grants or loans from, or guarantees of Indebtedness by, federal, state or local government or any agency thereof certified in an Officer's Certificate to be similar in nature to the encumbrances described in the first part of this clause (vi);

(vii) Any mortgages, security interests, liens, charges and encumbrances between members of the Obligated Group which were not incurred in contemplation of the admission of a person or a member of the Obligated Group, provided that no such lien may be extended or renewed or modified to cover additional property;

(viii) Any lease described under the caption "Sale, Lease or Other Disposition of Cash, Securities and Operational Assets" below.

(ix) Any lien on or security interest in Excluded Property;

(x) Any lien, encumbrance or security interest created by the Master Indenture;

(xi) Any other Mortgage or Property, provided that the Board and each other Obligated Issuer certify in an Officer's Certificate delivered to the Master Trustee that, after giving effect thereto, the principal amount of all Outstanding Indebtedness (other than Subordinated Indebtedness) would not in the aggregate exceed the sum of (A) eighty percent (80%) of the Book Value of the Unencumbered Property of the Obligated Group less the amount, if any, by which the current liabilities of the Obligated Group (reduced by the current installments of Long-Term Indebtedness) exceed Five Million Dollars (\$5,000,000) and (B) eighty percent (80%) of the amount, if any, by which the Book Value of all Mortgaged Property of the Obligated Group exceeds one hundred twenty percent (120%) of all Outstanding Mortgage Indebtedness; or

(xii) Any Mortgage, security interest, lien, charge or encumbrance with respect to any Property of any Person which is existing on the date that such Person becomes an Obligated Issuer hereunder or merges or consolidates with an Obligated Issuer and which was not incurred in contemplation of such event; provided that no such Mortgage, security interest, lien or encumbrance so described or the indebtedness secured thereby may be extended or renewed (which term shall not apply to the filing of any continuation statements under the Uniform Commercial Code) or modified to spread to any Property not subject to such Mortgage, security interest, lien or encumbrance on the date of such event, except to the extent that such Mortgage, security interest, lien or encumbrance, as so extended, renewed or modified could have been granted or created under any provision of the Master Indenture.

### **Restrictions as to Incurrence of Additional Indebtedness**

The Board and any other Obligated Issuer agree not to incur any Additional Indebtedness except one or more of the following:

(a) Long-Term Indebtedness, including Notes and Guaranties, provided that:

(i) The Master Trustee receives an Officer's Certificate stating the use or uses and estimated cost of the facilities, if any, to be financed with such Long-Term Indebtedness (if other than a Guaranty); and

(ii) Either:

(A) The Master Trustee receives a certificate of the Obligated Group Representative stating that the Debt Service Coverage Ratio (taking into account the maximum annual scheduled debt service on the proposed Long-Term Indebtedness then being issued in accordance with the assumptions set forth in the definition of Debt Service Coverage Ratio) for the most recent Fiscal Year for which audited financial statements are available, preceding the date of the proposed issuance of such Long-Term Indebtedness, was at least one and thirty-five hundredths (1.35); or

(B) The Master Trustee receives (x) a certificate of the Obligated Group Representative stating that the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, preceding the date of the proposed issuance of such Long-Term Indebtedness, was at least one and twenty hundredths (1.20) and (y) an opinion of an Independent Consultant that the Debt Service Coverage Ratio for the Fiscal Year immediately succeeding the date on which it is estimated that the facilities to be financed with such Long-Term Indebtedness (if other than a Guaranty) will be placed in service (or, in the event none of such Long-Term Indebtedness is being issued to finance capital improvements or in the event of a Guaranty, the Debt Service Coverage Ratio for the Fiscal Year immediately succeeding the date on which such Long-Term Indebtedness is issued), after giving effect to the issuance of such Long-Term Indebtedness and the revenues generated by the facilities thereby financed is expected to be at least one and twenty-five hundredths (1.25); provided, however, an opinion of an Independent Consultant will not be required if the Master Trustee receives a certificate of the Obligated Group Representative that such Debt Service Coverage Ratio is at least one and seventy-five hundredths (1.75); or

(C) If, in the opinion of an Independent Consultant, applicable laws or regulations have prevented or will prevent the Board or any Obligated Issuer from generating the Debt Service Coverage Ratio specified in (B) above, the conditions thereof will be deemed satisfied provided that (x) the Master Trustee receives a certificate of the Obligated Group Representative stating that the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available preceding the date of the proposed issuance of such Long-Term Indebtedness is at least one and no hundredths (1.00), and (y) the Master Trustee receives an opinion of an Independent Consultant that under such applicable laws or regulations or agreements the Debt Service Coverage Ratio for the Fiscal Year immediately succeeding the date on which it is estimated that the facilities to be financed with such Long-Term Indebtedness (if other than a Guaranty) will be placed in service (or, in the event none of such Long-Term Indebtedness is being issued to finance capital improvements or in the event of a Guaranty, the Debt Service Coverage Ratio for the Fiscal Year immediately succeeding the date on which such Long-Term Indebtedness is issued), after giving effect to the issuance of such Long-Term Indebtedness and the revenues generated by the facilities thereby financed is expected to be at least one and no hundredths (1.00).

(b) Completion Indebtedness, provided that a certificate of an architect is filed with the Master Trustee stating the necessity for (i)(A) the improvement, replacement, renovation or substitutions for or additions to facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred due to faulty design, damage to or destruction of such facilities or (B) the completion of facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred, (ii) the amount of such Completion Indebtedness needed and (iii) the use to which the proceeds of such Completion Indebtedness will be put.

(c) Refunding Indebtedness which has maximum annual debt service no greater than one hundred and five percent (105%) of the maximum annual debt service of the Indebtedness being refunded thereby.

(d) Short-Term Indebtedness in a principal amount not to exceed fifteen percent (15%) of the net revenues of the Obligated Group from patient services for the most recent Fiscal Year for which audited financial statements are available; provided that the principal amount of such Short-Term Indebtedness be decreased to three percent (3%) of the net revenues of the Obligated Group from patient services for thirty (30) consecutive days each Fiscal Year, except that such thirty (30) day reduction need not be met if an Independent Consultant certifies that any third party reimbursement entity contributing a significant amount to the net revenues of the Obligated Group is in excess of an average of ninety (90) days overdue on accounts receivable by the Obligated Group; provided, further, the principal amount of such Short-Term Indebtedness shall not in the aggregate together with the obligations described in paragraph (h) below exceed twenty percent (20%) of the net revenues of the Obligated Group from patient services.

(e) Commitment Indebtedness, provided that the requirements of paragraph (a)(ii) above would be satisfied under the assumption that the Commitment Indebtedness would not be outstanding but that the commitment supplied by the institutional lender is drawn upon in full on the date the Commitment Indebtedness is entered into and that the amount so drawn is reimbursed or repaid with interest by the Board or such Obligated Issuer to the institutional lender in accordance with the terms set forth in the credit or other reimbursement agreement; provided, if Commitment Indebtedness is incurred under this paragraph (e), the Board or such Obligated Issuer may draw upon the commitment supplied by the institutional lender without satisfying the other tests described herein.

(f) Subordinated Indebtedness.

(g) Interim Indebtedness, provided that all requirements of paragraph (a)(ii) above would be satisfied if such Indebtedness were being incurred with substantially equal annual payments to be paid for principal and interest over a term of twenty-five (25) years and at an interest rate set forth in a certificate of the Obligated Group Representative (which shall be accompanied by and based on an opinion by a banking or investment banking institution, which shall be acceptable to the Master Trustee and knowledgeable in the matters of health care finance) to be the term over which and the interest rate at which it could reasonably expect to borrow the same amount by issuing Long-Term Indebtedness, the principal of which is amortized over a twenty-five (25) year term.

(h) Lease obligations capitalized under generally accepted accounting principles the rentals of which are not in the aggregate in excess of fifteen percent (15%) of the net revenues of the Obligated Group from patient services for the most recent Fiscal Year for which audited financial statements are available; provided that such rentals shall not in the aggregate together with the principal amount of the Short-Term Indebtedness described in paragraph (d) above exceed twenty percent (20%) of such net revenues of the Obligated Group from patient services.

(i) Indebtedness of the Board in an aggregate amount not to exceed \$5,000,000 (as adjusted for inflation over time after issuance of the Series 2002 D Bonds) for the acquisition of Operating Assets.



Completion Indebtedness, Refunding Indebtedness, Commitment Indebtedness and Subordinated Indebtedness which is Long-Term Indebtedness shall not be subject to the tests set forth in paragraph (a) above, unless the Board or such Obligated Issuer elects to issue such Indebtedness as Long-Term Indebtedness pursuant to paragraph (a) above. In addition, any Indebtedness issued or guaranteed by the Board pursuant to any of the preceding paragraphs may at any time from time to time, if the same is permitted to be issued or guaranteed pursuant to another paragraph, be reclassified by the Board as having been issued or guaranteed by the Board pursuant to such other paragraph.

### **Debt Service Coverage Ratio**

Each of the Board and any other Obligated Issuer will cause the Debt Service Coverage Ratio of the Obligated Group to be calculated for each Fiscal Year as soon as practicable, but in no event later than five (5) months following the end of such Fiscal Year. If the Debt Service Coverage Ratio, as calculated at the end of any Fiscal Year, is below one and fifteen hundredths (1.15), each of the Board and any other Obligated Issuer shall retain an Independent Consultant to make recommendations to increase the Debt Service Coverage Ratio for subsequent Fiscal Years to at least one and fifteen hundredths (1.15) or, if in the opinion of any Independent Consultant the attainment of such level is impracticable, to the highest practicable level; provided, such Independent Consultant need not be retained to make such recommendations more frequently than once every two (2) Fiscal Years. Each of the Board and any other Obligated Issuer will follow the recommendations of the Independent Consultant, to the extent feasible, and, promptly upon its receipt of such recommendation and subject to existing law and applicable third party payor programs or agreements, will revise its rates, fees or charges or its method of operation and shall take such other action as are in conformity with such recommendations. So long as the Board and any other Obligated Issuer follow such Independent Consultant's recommendations, this requirement shall be deemed to have been complied with, even if the Debt Service Coverage Ratio for any subsequent Fiscal Year is below one and fifteen hundredths (1.15), unless and until the Debt Service Coverage Ratio falls below one and no hundredths (1.00).

### **Sale, Lease or Other Disposition of Cash, Securities and Operating Assets**

(a) Neither the Board nor any other Obligated Issuer will sell, lease or otherwise dispose of any of its cash, securities or other cash equivalents, or Operating Assets (other than in the ordinary course of business or as described below), unless the Board or each such other Obligated Issuer certify to the Master Trustee, which certification must be accompanied by evidence satisfactory to the Master Trustee in its reasonable judgment, in an Officer's Certificate that:

(i) With respect to the sale, lease or disposition of Operating Assets, in the judgment of the Board or such other Obligated Issuer, such Operating Assets have, or within the next succeeding twenty-four (24) calendar months are reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, provided the sale, lease, removal or other disposition thereof will impair the structural soundness, efficiency or economic value of the remaining Operating Assets;

(ii) Such sale, lease or disposition is solely from the Board or such other Obligated Issuer to the Board or any other Obligated Issuer;

(iii) Either (but in either case only if the sale, lease or disposition of such Operating Assets will not impair the structural soundness, efficiency or economic value of the remaining Operating Assets): (A) the leasing of all or any part of its Operating Assets is pursuant to the reasonable requirements of the Board or such other Obligated Issuer and upon terms no less favorable to the Board or such other Obligated Issuer than are obtainable in a comparable arms length transaction or (B) the sale or disposition of all or any part of its Operating Assets is pursuant to the reasonable requirements of the Board or such Obligated Issuer and for consideration, which takes the form of cash, securities or real or personal property, having a Fair Market Value at least equal to the Fair Market Value of such Operating Assets sold or disposed of;

(iv) Either:

(1) The Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available preceding the proposed date of such transaction, assuming such transaction actually occurred at the beginning of such period, would not be less than one and twenty hundredths (1.20); or

(2) An opinion of an Independent Consultant is delivered to the Master Trustee to the effect that the Debt Service Coverage Ratios for each of the two (2) Fiscal Years immediately following the proposed date of such transaction are expected to be:

(AA) Greater than one and twenty-five hundredths (1.25); or

(BB) Higher than it would have been had such transactions not been effected; or

(3) A certificate of an Obligated Group Representative is delivered to the Master Trustee to the effect that the Debt Service Coverage Ratio for each of the two (2) Fiscal Years immediately following the proposed date of such transaction is expected to be greater than one and seventy-five hundredths (1.75);

(v) There has occurred damage to or destruction of or the taking of any portion or temporary use by the exercise of the power of eminent domain of the Operating Assets of the Board or such other Obligated Issuer in an amount at least equal to ten percent (10%) of the aggregate Book Value of all Property of the Obligated Group and the Obligated Group Representative has elected not to repair or restore said Operating Assets, in which case the Net Proceeds of any related insurance or award in eminent domain proceedings shall be applied as provided in paragraph (b) under the caption "Damage, Destruction and Condemnation" below; or

(vi) Such sale, lease or disposition involves only Excluded Property.

(b) The Board or any other Obligated Issuer may sell, lease or otherwise dispose of its cash, securities or other cash equivalents, or Operating Assets (other than in the ordinary course of business), without satisfying the conditions that must be certified pursuant to paragraph (a) above, if such cash, securities or other cash equivalents, or Operating Assets are sold, leased, conveyed, transferred or otherwise disposed of pursuant to this paragraph (b) and: (i) the face value of the cash, securities and other cash equivalents disposed of and the aggregate Book Value of the Operating Assets sold, leased or otherwise disposed of pursuant to this paragraph (b) to any Person or Persons (including any Affiliate or Affiliates) in any one (1) Fiscal Year does not exceed eight percent (8%) of the aggregate Book Value of all Property of the Obligated Group as reflected on the audited financial statement of the Obligated Group at the beginning of such Fiscal Year; and (ii) the face value of the cash, securities and other cash equivalents disposed of and the aggregate Book Value of the Operating Assets sold, leased or otherwise disposed of pursuant to this paragraph (b) to any Person or Persons (excluding any Affiliate or Affiliates) in any one (1) Fiscal Year does not exceed five percent (5%) of the aggregate Book Value of all Property of the Obligated Group as reflected on the audited financial statement of the Obligated Group at the beginning of such Fiscal Year.

### **Consolidation, Merger, Sale or Conveyance**

(a) Neither the Board nor any other Obligated Issuer will merge or consolidate with any other corporation not a member of the Obligated Group or sell or convey all or substantially all of its assets to any person not a member of the Obligated Group, unless: (i)(A) either such Issuer will be the continuing corporation, or (B) the successor corporation (if other than such Issuer) will be a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation will expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Notes and Guaranties issued by such Issuer hereunder and all Guaranties by such Issuer of Indebtedness of any other member of the Obligated Group, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed or observed by such Issuer by supplemental indenture satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such corporation; (ii)(A) such Issuer or such successor corporation, as the case may be, immediately after such merger or consolidation, or such sale conveyance, would not be in default in the performance or observance of any covenants or conditions of this Indenture, (B) the conditions described in paragraph (a)(ii) under the caption "Restrictions on Incurrence of Additional Indebtedness" above, would be met for the incurrence of One Dollar of Long-Term Additional Indebtedness by such Issuer or successor corporation, and (C) the unrestricted fund balances of the Issuer or the successor corporation, as the case may be, for the first Fiscal Year following such merger, consolidation, sale or conveyance will be at least ninety percent (90%) of the unrestricted fund balances of the Issuer for the Fiscal Year preceding such event as a result of such merger, consolidation, sale or conveyance; (iii) in the event such Issuer is not the successor corporation, such successor corporation demonstrates, in a report of an Independent Consultant delivered to the Master Trustee that its Debt Service Coverage Ratios, computed as though each such ratio were the Debt Service Coverage Ratios, for each of the two (2) consecutive Fiscal Years immediately succeeding the proposed date of such merger, consolidation, sale or conveyance is expected to be at least one and twenty-five hundredths (1.25), and (v) there has been delivered to the Master

Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such merger, consolidation, sale or conveyance would not adversely affect the exemption from federal income taxation of interest payable on any issue of Related Bonds then outstanding under a Related Bond Indenture.

(b) In the case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for such Issuer, with the same effect as if it had been named in the Master Indenture as the Board or such other Obligated Issuer. Such successor corporation thereupon may cause to be signed, and may issue in its own name, Notes or Guaranties issuable under the Master Indenture; and upon the order of such successor corporation, instead of such Issuer, and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee will authenticate and deliver Notes that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Notes so issued and all Outstanding Guaranties theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Notes and Guaranties had been issued under the Master Indenture at the date of its execution.

(c) The Master Trustee, subject to the provisions of the Master Indenture relating to its duties and indemnification, may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the above requirements and that it is proper for the Master Trustee to join in the execution of any Supplemental Master Indenture provided herein.

### **Filing of Financial Statements, Certificates of No Default and Other Information**

Each of the Board and any other Obligated Issuer agree:

(a) As soon as practicable but in no event later than six (6) months after the end of each Fiscal Year, file or cause to be filed with the Master Trustee, with each Noteholder who may have so requested or in whose behalf the Master Trustee may have so requested: (i) a revenue and expense statement of such Issuer (or of any consolidated group of companies of which such Issuer is a member) for such Fiscal Year; and (ii) a balance sheet of such Issuer (or of any consolidated group of companies of which such Issuer is a member) as of the end of such Fiscal Year; each accompanied by the certificate or opinion of the Indiana State Board of Accounts or an independent certified public accountant;

(b) As soon as practicable but in no event later than six (6) months after the end of each Fiscal Year, file or cause to be filed with the Master Trustee each Noteholder who may have so requested: (i) a combined revenue and expense statement of such Issuer (or of any consolidated group of companies of which such Issuer is a member) presenting each separately and combined, along with combining entries eliminating material intercompany balances and transactions, for such Fiscal Year; and (ii) a combining balance sheet presented on the basis described in (i) above as of the end of each Fiscal Year; each accompanied by the certificate or opinion of the Indiana State Board of Accounts or an independent certified public accountant;

(c) As soon as practicable but in no event later than six (6) months after the end of each Fiscal Year, file or cause to be filed with the Master Trustee and each Noteholder who may have so requested, an Officer's Certificate of such Issuer and a certificate of an independent certified public accountant stating whether or not, to the best knowledge of such Person, such Issuer is in default in the performance of any covenant contained in the Master Indenture or a Master Supplemental Indenture and, if so, specifying each such default of which such Person has knowledge;

(d) If an Event of Default has occurred and is continuing: (i) file or cause to be filed with the Master Trustee such other financial statements and information concerning the operations and financial affairs of such Issuer (or of any consolidated group of companies of which such Issuer is a member) as the Master Trustee may from time to time reasonably request, excluding donor records, patient records, personnel records, medical staff records, medical staff committee records and any other records the confidentiality of which may be protected by law; and (ii) provide access to the facilities of such Issuer for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request; and

(e) Within ten (10) days after such Issuer's receipt thereof, file with the Master Trustee a copy of each report required by the Master Indenture to be prepared by an Independent Consultant or an Independent Insurance Consultant.

### **Restrictions on Guaranties**

Neither the Board nor any other Obligated Issuer will enter into, or become liable after the date of the Master Indenture in respect of, any Guaranty unless: (i) such Guaranty could then be incurred as Long-Term Indebtedness under paragraph (a) under the caption "Restrictions as to Incurrence of Additional Indebtedness" above; or (ii) such Guaranty is of Indebtedness of another member of the Obligated Group or of Related Bonds.

### **Damage, Destruction and Condemnation**

(a) In case of any damage to or destruction of or the taking of any portion or temporary use by the exercise of the power of eminent domain of the Operating Assets, each of the Board and any other Obligated Issuer will cause the Obligated Group Representative to promptly give or cause to be given written notice thereof to the Master Trustee generally describing the nature and extent of such damage, destruction or taking. Unless the Obligated Group Representative exercises the option to direct the redemption of Notes pursuant to a Supplemental Master Indenture, each of the Board and any other Obligated Issuer will, whether or not any Net Proceeds of insurance or award in eminent domain proceedings received on account of such damage, destruction or taking is sufficient for such purpose, promptly commence and complete, or cause to be commenced and completed, the repair, replacement or restoration of the Operating Assets as nearly as practicable to the value, condition and character thereof existing immediately prior to such damage, destruction or taking, with such changes or alterations as such Issuer may deem necessary for proper operation of the Operating Assets.

(b) In connection with the repair, replacement or restoration of Operating Assets pursuant to paragraph (a) above (i) if the total Net Proceeds of insurance or awards in eminent domain proceedings do not exceed ten percent (10%) of the aggregate Book Value of all Property then owned by the members of the Obligated Group, such Net Proceeds will be paid as directed by the Obligated Group Representative; and (ii) if the total Net Proceeds exceed such amount, such Net Proceeds will be paid to and held by the Master Trustee in a separate insurance loss account, for application of as much as may be necessary of the Net Proceeds to the payment of the costs or repair, replacement, rebuilding or restoration, either on completion thereof or as the work progresses, as directed by the Obligated Group Representative. The Master Trustee may, prior to making payment from such insurance loss account, require the Obligated Group Representative to provide evidence that, or deposit with the Master Trustee moneys to be placed in such insurance loss account so that, there will be adequate moneys available for such repair replacement and restoration. The Master Trustee is not obliged to make any payment from such insurance loss account if there exists an Event of Default under the Master Indenture. Any balance of the Net Proceeds held by the Master Trustee remaining after payment of all costs of such repair, replacement, rebuilding or restoration will be paid as directed by the Obligated Group Representative.

(c) If, in lieu of repair, replacement or restoration, the Obligated Group Representative has exercised the option to direct the redemption of Notes pursuant to the provisions of one (1) or more Supplemental Master Indentures, an amount equal to any Net Proceeds received by the Master Trustee prior to such redemption shall (together with any investment income therefrom) be credited against the amount payable by the Obligated Group pursuant to such Supplemental Master Indentures designated by the Obligated Group Representative to effect such redemption and such Net Proceeds, together with any investment income therefrom, will be applied in accordance with the applicable Supplemental Master Indentures.

## **Events of Default**

Events of Default, as used in the Master Indenture, mean any of the following events, whatever the reason for such Event of Default and whether it is voluntary or involuntary or comes about or is effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body:

(a) The Board or any other Obligated Issuer fails to make any payment of the principal of or premium, if any, or interest on any Note or Notes or any Indebtedness collateralized or secured by any Note or Notes or fails to make any payment on any Guaranty when and as the same becomes due and payable, whether by maturity, by acceleration or otherwise, in accordance with the terms thereof, the Master Indenture and of the Supplemental Master Indentures and the continuance of such default beyond the period of grace, if any, set forth in the Supplemental Master Indentures or (in the case of a Note or Notes collateralizing or securing an issue of Related Bonds) the Related Bond Indenture, as the case may be; or

(b) The Board or any other Obligated Issuer fails to duly observe or perform any other covenant or agreement on its part contained in the Master Indenture or in a Supplemental Master Indenture to which it is a party for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, has been given to the members of the Obligated Group, the Related Bond Trustee and the Obligated Group Representative by the Master Trustee, or to the members of the Obligated Group and the Master Trustee by the holders of at least twenty-five percent (25%) in aggregate principal amount of Notes then Outstanding provided that if any such default can be cured by the Board or any other Obligated Issuer but cannot be cured within the thirty (30) day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by such Issuer within such thirty (30) day period and diligently pursued until the default is corrected; or

(c) The Board or any other Obligated Issuer defaults in the payment of any Indebtedness (other than Notes or Guaranties issued and outstanding under the Master Indenture) then outstanding in an amount exceeding \$100,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date hereof), whether such Indebtedness now exists or is hereafter created, and any period of grace with respect thereto has expired, or an event of default as defined in any Mortgage, indenture or instrument under which there is issued or by which there is secured or evidenced, any Indebtedness then outstanding in an amount exceeding \$100,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date hereof), whether such Indebtedness now exists or is hereafter created, occurs, which default in payment or event of default results in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided that any such failure by an Obligated Issuer shall not be an event of default under this paragraph if such Obligated Issuer is diligently contesting in good faith its obligation to pay such Indebtedness and has deposited with the Master Trustee the amount of such disputed Indebtedness with instructions to hold such amount in escrow pending the resolution of such dispute and to deliver such amount or portion thereto determined to be owing to the holder of such Indebtedness or the Obligated Issuer, as appropriate, upon such resolution (the Obligated Issuer being entitled to direct the investment of such amount while in escrow and being entitled to receive the investment earnings thereon); or

(d) The Board or any other Obligated Issuer (i) admits in writing its inability to pay its debts generally as they become due, (ii) has an order for relief entered in any case commenced by or against it under the federal bankruptcy laws, as now or hereafter in effect, (iii) commences a proceeding under any federal or state bankruptcy, insolvency, reorganization or other similar law, or has such a proceeding commenced against it and either has an order of insolvency or reorganization entered against it or has the proceeding remain undismissed and unstayed for ninety (90) days, (iv) makes an assignment for the benefit of creditors or (v) has a receiver or trustee appointed for it or for the whole or any substantial part of its property; provided that any of such occurrences shall not be an Event of Default under this paragraph unless any other members of the Obligated Group have failed to deposit or cause to be deposited with the Master Trustee one or more Notes of one or more members of the Obligated Group in substitution for the Notes of the Obligated Issuer in default under this paragraph; or

(e) Any representation or warranty regarding timely payment of amounts due on Notes, or due authorization of documents is untrue in any material respect as of the date of issuance or making thereof and is not corrected within 30 days after written notice thereof to the Obligated Group Representative by the Master Trustee; or

(f) (i) Any judgment, writ or warrant of attachment or of any similar process in an amount in excess of \$100,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date hereof) is entered or filed against any Obligated Issuer or against any of its Property and remains unvacated, unpaid, unbonded, uninsured or unstayed for a period of 60 days, and (ii) the Obligated Group has failed to deposit with the Master Trustee within 15 calendar days of the Obligated Group Representative's receipt of written notice from the Master Trustee that an event described in this subsection has occurred, an amount sufficient to pay such judgment, writ or warrant of attachment or similar process in full.

Upon the occurrence of an Event of Default, then and in each and every such case, unless the principal of Notes has already become due and payable, the Master Trustee may, and if requested by the holders of, or by one or more Related Bond Trustees acting on behalf of the holders of, a majority in aggregate principal amount of Notes of any series then Outstanding, the Master Trustee shall, by notice in writing to the members of the Obligated Group, declare the principal of all Notes or the Notes of such series to be immediately due and payable, and upon any such declaration the same shall be and become immediately due and payable, anything in the Master Indenture or in the Notes of such series contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of all Notes of such series shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due has been obtained or entered as hereinafter provided, the members of the Obligated Group pay or deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Notes and the principal of and premium, if any, on all such Notes that have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate specified in the Supplemental Master Indenture) and the expenses of the Master Trustee, and any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Notes that have become due by acceleration, have been remedied, the Master Trustee may, and, upon the written request of the holders of a majority in principal amount of Notes of such series shall, waive all Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

### **Bondholders Treated as Owners of Notes**

For purposes of determining whether (i) pursuant to provisions of the Master Indenture regarding the right of the holder(s) of Notes to direct proceedings and waive defaults, holders of the requisite percentage in aggregate principal amount of Notes of any series then outstanding have directed the time, method and place of conducting any proceeding described thereon or have waived any Event of Default or its consequences, (ii) holders of the requisite percentage in aggregate principal amount of Notes of any series then outstanding have requested or demand



that the Master Trustee take any action described therein, or (iii) pursuant to any other provision of the Master Indenture, holders of the requisite percentage in aggregate principal amount of Notes of any Series then outstanding have requested, demanded or consented to the taking of action described in such provision or have requested or demanded that such action not be taken or have consented to the failure to take such action, the following attribution principles shall apply where Notes and Related Bonds have been issued: (A) each holder of any Related Bonds which are fully registered (other than to bearer) or registered only as to principal (other than to bearer) shall be deemed to own directly a percentage of the aggregate principal amount of such Notes, which percentage shall equal a fraction, the numerator of which shall equal the aggregate principal amount of such Related Bonds then outstanding and owned by such holder and the denominator of which shall equal the aggregate principal amount of all such Related Bonds then outstanding, and (B) the Related Bond Trustee shall be deemed to own directly a percentage of the aggregate principal amount of such Notes, which percentage shall equal a fraction, the numerator of which shall equal the aggregate principal amount of such Related Bonds then outstanding which are coupon bonds or which are registered to bearer and the denominator of which shall equal the aggregate principal amount of all such Related Bonds then outstanding.

The Related Bond Trustee shall certify to the Master Trustee the percentage of the aggregate principal amount of the Notes deemed owned by the Related Bond Trustee and by the holders of the Related Bonds pursuant to the preceding paragraph and the Master Trustee may conclusively rely upon such certification.

#### **SUMMARY OF CERTAIN PROVISIONS OF SUPPLEMENTAL INDENTURE NO. 2**

*The following is a summary of certain additional provisions of Supplemental Indenture No. 2 not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to Supplemental Indenture No. 2.*

The Series 2002 Note is issued pursuant to the Master Indenture, as supplemented by the Supplemental Indenture No. 2. The Supplemental Indenture No. 2 provides that the Series 2002 Note will be subject to prepayment prior to maturity to the extent that the Series 2002 D Bonds are subject to redemption prior to maturity.

In addition, the Board agrees to make monthly deposits to the Interest Account and the Sinking Fund Account as described under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Funds and Accounts."

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## **APPENDIX E**

### **DEFINITIONS**

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## **DEFINITIONS**

The following are definitions of certain of the terms used in this Official Statement, including its Appendices:

"Accounts" means any of the accounts established, held and disbursed by the Trustee under the Indenture.

"Act" means the provisions of Indiana Code 5-1.5, as amended from time to time.

"Additional Indebtedness" means any Indebtedness (including Notes and Guaranties other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group) incurred subsequent to the date of issuance of the Series 2002 Note.

"Affiliate" means (i) a Person who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with an Obligated Issuer or (ii) a Person, a majority of whose members are members of the Governing Body of an Obligated Issuer. For purposes of this definition, "control" shall mean the power to direct the management, policies and assets of a Person through the ownership of a majority of its voting securities or the right to designate or elect a majority of the members of its Governing Body.

"Ambac Assurance" means Ambac Assurance Corporation, Wisconsin domiciled stock insurance corporation.

"Board" or "Qualified Entity" means The Board of Trustees of Hendricks County Hospital, a body corporate and politic organized and existing under the laws of the State, including particularly Indiana Code 16-22, and any permitted successor to such Board under the Master Indenture.

"Bond Bank" means the Indiana Bond Bank, an entity created by the Act as a separate body corporate and politic, constituting an independent instrumentality of the State exercising essential public functions, but not a State Agency, or any successor to its functions.

"Bond Insurance Policy" means the insurance policy issued by Ambac Assurance guaranteeing the payment of and interest on the Series 2002 D Bonds.

"Bondholder" or "holder of Bonds" or "owner of Bonds" or any similar term means the registered owner of any Bond or any purchaser of Bonds being held for resale, including the Bond Bank.

"Bonds" means the Series 2002 D Bonds and any Refunding Bonds.

"Book Value" means (i) when used in connection with Property of the Board or any other Obligated Issuer, the value of such Property, net of accumulated depreciation, as it is carried on the books of account of such person and in conformity with generally accepted accounting principles and (ii) when used in connection with Property of the Obligated Group, the aggregate of the values so determined with respect to the Property of each member of the Obligated Group.

"Cash Flow Certificate" means a certificate prepared in accordance with the Indenture by an accountant or firm of accountants, appointed by the Bond Bank and acceptable to the Trustee, to the effect that immediately after the occurrence or non-occurrence of a specified action or omission, as appropriate, Revenues expected to be received together with moneys held in the Funds and Accounts (other than the Rebate Fund), will at least be sufficient on each Interest Payment Date to provide payment of the principal and interest of the Bonds outstanding and due on such date and sufficient to pay projected Program Expenses, if any.

"Code" means the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2002 D Bonds and the applicable judicial decisions and published rulings and any applicable regulations promulgated or proposed thereunder or under the Internal Revenue Code of 1954.

"Commitment Indebtedness" means any Indebtedness incurred by the Board or any Obligated Issuer for borrowed money with respect to which an institutional lender of recognized standing acceptable to the Trustee has issued a commitment to provide funds to secure the obligation of the Board of such Obligated Issuer to make payment on such Indebtedness or the obligation of the Related Issuer of any Related Bonds secured by such Indebtedness of the Board of such Obligated Issuer.

"Completion Indebtedness" means any Long-Term Additional Indebtedness incurred by the Board or any other Obligated Issuer for the purpose of financing: (1) the improvement, replacement, renovation or substitution of, or additions to, facilities for which Long-Term Indebtedness or Interim indebtedness has been incurred, necessitated by faulty design, damage to or destruction of such facilities, or (ii) the completion of facilities for which Long-Term Indebtedness or Interim Indebtedness has been issued or incurred.

"Completion Notes" means any Notes that constitute Completion Indebtedness.

"Consumer Price Index" means the Consumer Price Index for Urban Wage Earners and Clerical Workers as finally issued for Cincinnati, Ohio/Kentucky/Indiana, by the Bureau of Labor Statistics of the United States Department of Labor, or any successor thereto, for April 2002. No adjustment need be made by reference to this index unless the index has changed by ten percent (10%) or more since the last adjustment was made and no adjustment need be made on account of changes in such index which represent changes in the base upon which such index is computed rather than increases or decreases in quantities measured by such index. In the event such index should be abolished and no substitute provided, then any index, service or publication approved by the Trustee upon recommendation of the Obligated Group Representative which most nearly provides the measurement now being provided by the Consumer Price Index shall be used in place of the Consumer Price Index.

"Costs of Issuance Fund" means the Fund by that name created by the Indenture.

"County" means the County of Hendricks, Indiana.

"Debt Service Coverage Ratio" means the ratio for the Fiscal Year in question of Net Income Available for Debt Service to the maximum annual scheduled debt service (taking into

consideration the mandatory sinking fund redemption payments or deposits but excluding any requirement to pay principal or interest on any obligation to the extent that Irrevocable Deposits sufficient to pay such principal or interest have been made) of the Board and each other Obligated Issuer on Long-Term Indebtedness for any succeeding Fiscal Year, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions; provided, however, that for purposes of calculating such ratio:

(i) (A) the principal amount of any Long-Term Indebtedness having a single principal maturity and no sinking fund redemption requirements (except Long-Term Indebtedness for which no interest is payable), and (B) a single maturity of any Long-Term Indebtedness if the principal amount due at such maturity exceeds an amount equal to two hundred percent (200%) of the maximum principal amount of such Long-Term Indebtedness due (whether at maturity or pursuant to sinking fund redemption requirements) in any other Fiscal Year, shall be treated as if the amount of such single maturity has been issued over a term of twenty-five (25) years at an interest rate equal to the marginal long-term borrowing cost of the Obligated, Group as determined by an Independent Consultant and was payable in approximately equal annual payments of principal and interest;

(ii) the principal payments of any Long-Term Indebtedness having a single principal maturity, no sinking fund redemption requirements and no interest payable shall be calculated as if payable in approximately equal annual payments;

(iii) the interest for any Long-Term Indebtedness with an interest rate which changes from time to time during the term thereof and which cannot at the date of such calculation be determined for the period under consideration, shall be calculated as if the rate on such Long-Term Indebtedness were equal to a rate determined as follows: assuming that the Long-Term Indebtedness bears the rate of interest most recently published as *The Bond Buyer Index* for 30-year revenue bonds at the time such calculation is performed; provided that such rate of interest shall be applied based on an assumed amortization of the principal amount of indebtedness is being amortized on a level debt service basis over the lesser of a 20-year period or the stated maturity of the Long-Term Indebtedness in question;

(iv) the principal and interest due on Interim Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth in paragraph (g) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" in Appendix D hereto;

(v) the principal and interest due on Commitment Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth in paragraph (e) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" in Appendix D hereto; and

(vi) after the determination of the maximum annual scheduled debt service has been made and if capitalized interest has been funded for indebtedness included in such, calculation, such maximum amount shall be reduced by the amount of capitalized interest funded for the Fiscal Year for which the ratio is being computed unless the Indebtedness was incurred during such Fiscal Year and interest was funded only for the period during the Fiscal Year such Indebtedness was Outstanding, in which event the amount of interest deducted, shall be computed, as if the Indebtedness had been Outstanding for the full Fiscal Year and interest had been funded for such period.

"Debt Service Reserve Fund" means the Fund by that name created by the Indenture.

"Debt Service Reserve Requirement" means the amount required to be maintained in the Debt Service Reserve Fund pursuant to the Indenture, as described under the caption, "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002 D BONDS - Debt Service Reserve Fund."

"DTC" means The Depository Trust Company, New York, New York.

"Event of Default" means any occurrence or event defined as such in the Indenture.

"Excepted Property" means any unimproved real property or interest therein.

"Excluded Property" means Restricted Property and any other Property of the Board and any other Obligated Issuer set forth on Exhibit C attached to the Master Indenture.

"Fair Market Value" means the value established for Operating Assets pursuant to an appraisal made by a Person appointed by the Obligated Group Representative and experienced in appraising the value of assets similar or identical to the Operating Assets and who is not an employee, director, partner or officer of any member of the Obligated Group and has no direct financial interest or any material indirect financial interest in any member of the Obligated Group, other than the payment to be received under a contract for services to be performed by such Person.

"Federal Securities" means (i) direct obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America, or (ii) any certificates or other evidences of ownership interest in obligations of the character described in (i) or in specified portions thereof issued by a commercial bank having a combined capital and surplus of not less than \$100,000,000, including, without limitation, portions consisting solely of the principal thereof or solely of the interest thereon, or (iii) obligations, the full payment of principal of and premium, if any, and interest on which are provided for by an Irrevocable Deposit of the Federal Securities described in clause (i) to the extent such investments are permitted by applicable law.

"Fiscal Year" means, with respect to the Board, a period of twelve consecutive months constituting the fiscal year of the Board, commencing on the first day of January of any year and ending on the last day of December of any year, both inclusive, or such other period as hereafter



may be established from time to time for budgeting and accounting purposes of the Board by the Governing Body of the Board.

"Fiscal Year" means, with respect to the Bond Bank, the twelve-month period from July 1 through the following June 30.

"Funds" means all the funds established, held and disbursed by the Trustee under the Indenture.

"General Account" means the account by that name created by the Indenture.

"General Fund" means the Fund by that name created by the Indenture.

"Governing Body" means (i) (A) the Board, (B) the board of directors or the board of trustees of any other Obligated Issuer, if applicable, or (C) if there shall be no board of directors or board of trustees, such Person or body which pursuant to law or the organizational documents of the Board, or of any other Obligated Issuer, if applicable; is vested with powers similar to those vested in a board of directors or a board of trustees and (ii) any committee empowered to act on behalf of such board or body.

"Governmental Obligations" means (a) direct obligations of the United States of America; (b) obligations guaranteed as to principal and interest by the United States of America or any federal agency whose obligations are backed by the full faith and credit of the United States of America, including but not limited to: Department of Housing and Urban Development, Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, Government National Mortgage Association, Maritime Administration, Small Business Administration; which obligations include but are not limited to certificates or receipts representing direct ownership of future interest or principal payments on obligations described in clause (a) or in this clause (b) and which are held by a custodian in safekeeping on behalf of the holders of such receipts, (c) securities evidencing ownership interests in open-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, whose investments are limited to the obligations described in clauses (a) and (b) and to repurchase agreements fully collateralized by such obligations; and (d) obligations of any state of the United States or any political subdivision thereof, the full payment of principal of, premium, if any, and interest on which (i) is unconditionally guaranteed or insured by the United States of America, or (ii) is provided for by an irrevocable deposit of the securities described in clause (i) to the extent such investments are not permitted by law.

"Guaranty" means, when used in connection with a particular person, all obligations of such person guaranteeing or in effect guaranteeing any indebtedness or other obligation of any other person (the "primary obligor") in any manner, whether directly or indirectly, including obligations incurred through an agreement, contingent or otherwise, by such person:

(i) to purchase such indebtedness or obligation or any Property or assets constituting security therefor;

(ii) to advance or supply funds:

(A) for the purchase or payment of such indebtedness or obligation; or

(B) to maintain working capital or other balance sheet condition or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(iii) to lease Property or to purchase securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation; or

(iv) otherwise to assure the owner of the indebtedness or obligation of the primary obligor against loss in respect thereof;

provided, however, that notwithstanding the foregoing, none of the following shall be deemed to constitute a Guaranty: (V) the endorsement in the ordinary course of business of negotiable instruments for deposit or collection, (W) the discount or sale with recourse of any such person's notes receivable or accounts receivable, (X) rentals payable in future years under leases, other than leases properly capitalized under generally accepted accounting principles, (Y) payments required to be deposited into any reserve funds pursuant to the provisions of any Related Bond Indenture or Supplemental Master Indenture and (Z) any obligation of such person guaranteeing or in effect guaranteeing any indebtedness or other obligation of the primary obligor which does not constitute a sum certain.

"Hospital" means any hospital or hospitals, within the meaning of Indiana Code 16-22, established by the Board of Commissioners of the County of Hendricks in accordance with Indiana Code 16-22, presently meaning Hendricks Community Hospital.

"Indebtedness" means all obligations shown as liabilities or as contingent liabilities on the balance sheet in accordance with generally accepted accounting principles, including Guaranties (other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group or a Guaranty of Related Bonds), for the payment of moneys incurred or assumed by the Board or any other Obligated Issuer, except: (i) rentals payable in future years under leases, other than leases properly capitalized under generally accepted accounting principles, (ii) payments required to be deposited into any Renewal, Replacement and Depreciation Fund or reserve funds pursuant to the provisions of any Related Bond Indenture or Supplemental Master Indenture, (iii) any obligation owed by one member of the Obligated Group to any other member or members of the Obligated Group, (iv) any obligation to reimburse any Person not a member of the Obligated Group for the payment of any Indebtedness to the extent that such Indebtedness is counted as Indebtedness for purposes of the calculations under the Master Indenture or the payment of the principal of and premium, if any, or the interest on any Related Bonds secured by an Indebtedness which is counted as

Indebtedness for purposes of the calculation under this Indenture, or (v) advance payments by Blue Cross, Medicare, Medicaid or other third party payors.

"Independent Consultant" shall mean a firm (i) which shall not have a partner, director, officer or substantial stockholder who is either an employee, director or officer of the Board or any other Obligated Issuer, or a Subsidiary of either, or an employee, director or elected official of any Related Issuer and (ii) which shall be appointed by the Board or any other Obligated Issuer, shall be satisfactory to the Trustee and shall be qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the members of the Obligated Group and which shall have a favorable national reputation for skill and experience in the financial affairs of such facilities.

"Indenture" means the Indenture of Trust dated as of March 15, 1992, between the Bond Bank and the Trustee, and all supplements and amendments thereto.

"Interest Payment Date" means any date on which interest is payable on the Bonds.

"Interim Indebtedness" means Indebtedness incurred in anticipation of the issuance of additional Long-Term Indebtedness, provided that at the time such Interim Indebtedness is incurred, the anticipated refinancing thereof by the issuance of Long-Term Indebtedness is reasonably expected to be completed within the following sixty (60) months.

"Investment Agreement" means any investment agreement between the Trustee and a provider selected by the Bond Bank, which provider is rated at least equal to the rating assigned to the Series 2002 D Bonds by Standard & Poor's Corporation.

"Investment Securities" means any of the following to the extent such investments are permitted by law: (a) Governmental Obligations; (b) certificates of deposit fully and promptly secured at all times by Government Obligations; provided, that such certificates are with commercial banks, savings and loan associations, mutual savings banks, or credit unions, including the Trustee, which are eligible depositories for State of Indiana deposits under Indiana Code 5-13; (c) certificates of deposit, savings accounts, deposit accounts or depository receipts of commercial banks, savings and loan associations, mutual savings banks, or credit unions, including the Trustee, which are eligible depositories for State of Indiana deposits under Indiana Code 5-13, and which are fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration; (d) bankers acceptances of commercial banks, savings and loan associations or mutual savings banks, including the Trustee, which are eligible depositories for State of Indiana deposits under Indiana Code 5-13, and which mature not more than one (1) year after the date of purchase; provided, such commercial banks, savings and loan associations, or mutual savings banks (as opposed to their holdings companies) must be rated for unsecured debt at the time of purchase of the investments at least in the two highest rating categories by Standard & Poor's Corporation; (e) investment agreements issued by entities rated in the two full highest categories by Standard & Poor's Corporation; (f) repurchase agreements with any bank or trust company organized under the laws of any state of the United States of America or any banking association, including the Trustee, or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York; provided, that any such provider is rated in the two highest rating categories by Standard and

Poor's Corporation; provided further, that each repurchase agreement is secured by Government Obligations having at all times a market value not less than 102% of the principal amount of such repurchase agreement; (g) shares of mutual funds that invest only in Government Obligations that are rated in the highest category by Standard & Poor's Corporation; and (h) the Investment Agreement.

"Irrevocable Deposit" means the irrevocable deposit in trust of cash in an amount (or Federal Securities the principal of and interest on which will be in an amount) and under terms sufficient to pay all or a portion of the principal of or interest on, as the same shall become due, any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Trustee, a Related Bond Trustee or any other trustee authorized to act in such capacity.

"Issuer" means the Board or any other Obligated Issuer, depending on the context.

"Loan Agreement" means the Loan Agreement dated as of July 1, 2002, between the Bond Bank and the Qualified Entity, as amended and supplemented from time to time.

"Long-Term" means (i) when used in connection with Indebtedness (including Notes) other than Guaranties, Indebtedness having an original maturity greater than one (1) year or renewable at the option of the Board or any other Obligated Issuer for a period such that the full maturity would be greater than one (1) year from the date of original issuance thereof, but shall not mean Short-Term Indebtedness or Interim Indebtedness, and (ii) when used in connection with Indebtedness represented by any Guaranty (other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group), any such Indebtedness; provided, however, that, so long as any such Guaranty shall constitute a contingent liability under generally accepted accounting principles, for the purposes of any covenants in the Master Indenture or any computation provided for herein, the aggregate annual principal and interest payments on any Long-Term Indebtedness represented by such Guaranty shall be deemed to be equal to twenty percent (20%) of the principal and interest which would be payable annually if Long-Term Indebtedness other than a Guaranty were issued on the date the Board or any other Obligated Issuer enters into, or becomes liable in respect of, such Guaranty man amount equal to the maximum amount of the indebtedness or other obligation guaranteed or in effect guaranteed by such Guaranty (less any portion of such maximum amount which is attributable to interest or imputed or implicit interest), which Long-Term Indebtedness would mature over a term of twenty-five (25) years in approximately equal annual payments of principal and interest and would have an interest rate equal to the weighted-average annual interest rate (whether actual, imputed or implicit) payable on the indebtedness or other obligation guaranteed or in effect guaranteed by such Guaranty.

"Master Indenture" means the Master Trust Indenture dated as of March 15, 1992, between the Board and the Master Trustee.

"Master Trustee" means Bank One Indianapolis NA, Indianapolis, Indiana, a national banking association organized and existing tinder the laws of the United States of America, or any successor thereto, under the Master Indenture.

"Memorandum of Compliance" means the Memorandum of Compliance with Code Section 148(f) delivered by the Bond Bank to the Trustee contemporaneously with the delivery of the Series 2002 D Bonds.

"Mortgage" means any mortgage of, security interest in, lien, charge or encumbrance on or pledge of Property other than the mortgages, security interests, liens, charges and encumbrances: (i) listed in Exhibit B attached to the Master Indenture, (ii) created solely by and among members of the Obligated Group, (iii) granted in favor of the Master Trustee to secure solely the performance of all obligations under the Master Indenture, including the pledge of Net Revenues, or (iv) on a parity with or subordinate to a lien granted to the Master Trustee S to secure the performance of obligations under this Indenture.

"Mortgage Indebtedness" means Indebtedness (including Notes and Guaranties other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group) secured by a Mortgage.

"Mortgaged Property" means Property that is subject to a Mortgage.

"Net Income Available for Debt Service" means, as to any period of time, the amount, if any, by which gross operating revenue (less deductions from gross revenue and excluding income from Irrevocable Deposits) and nonoperating revenue of the Board and each other Obligated Issuer exceeds Total Expenses of the Board and each other Obligated Issuer other than depreciation, amortization and interest, all as determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions; provided, however, that no determination thereof shall take into account (i) any gain or loss resulting from the extinguishment of Indebtedness of the Obligated Group, (ii) any gain or loss resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business or (iii) Restricted Property.

"Net Proceeds" means, when used with respect to any insurance or condemnation award, the gross proceeds from such insurance or condemnation award remaining after payment of all expenses incurred in the collection of such gross proceeds.

"Net Revenues" means all cash and other receipts, present and future accounts, receivables, contracts and contract rights (including particularly those between the Board or any other Obligated Issuer and the State or any a other state with respect to Medicaid, the Board or any other Obligated Issuer and any third-party insurers of any patients of the Board of such other Obligated Issuer, and the Board or any other Obligated Issuer and the United States of America with respect to Medicare or any other equivalent insurance programs or any state or federal program substituted in lieu thereof); general intangibles, documents and instruments, which are now owned or hereafter acquired by the Board or any other Obligated Issuer, and all proceeds therefrom, whether cash or noncash, and which are derived by the Board or any other Obligated Issuer from the conduct of all or any part of its operations; and all revenue and income of the Board or any other Obligated Issuer from whatever source derived, including income from the principal of investments, teases and income received from leases, and grants received by the Board or any Obligated Issuer from any source, but excluding only Restricted Moneys of the

Board or any other Obligated Issuer. Notwithstanding the foregoing, only amounts in excess of Total Expenses (other than depreciation, amortization, interest and noncash items, including any gain or loss resulting from the extinguishment of Indebtedness, sale, exchange or disposition of capital assets or a change in accounting principles) shall constitute Net Revenues.

"Noteholder" or "holder" means: (i) when used with reference to any Note or Notes, the Registered Owner of a Note, or (ii) when used with reference to any Guaranty issued under the Master Indenture, the person in whose name such Guaranty is issued.

"Obligated Group" means 'the Board and each other Obligated Issuer, if any.

"Obligated Group Representative" means the Chairman or Vice Chairman of the Board, or the Chief Executive Officer, President or Vice President of Finance of the Hospital.

"Obligated Issuer" means (i) the Board or (ii) any other Person which has become an Obligated Issuer under the Master Indenture.

"Officer's Certificate" means a certificate signed by the Chairman or a Vice Chairman of the Board, the Chief Executive Officer, President or Vice President of Finance of the Hospital, or any other duly authorized officer of one or more members of the Obligated Group, or any other Person in which the power to act on behalf of an Obligated Issuer is vested by law, the organizational documents of such Obligated Issuer or by subsequent action of its Governing Body.

"Operating Assets" means any or all land, leasehold interests, buildings, machinery, furniture, fixtures, equipment, hardware, supplies and inventory of, or to be acquired by, the Board and each other Obligated Issuer, whether separately or together with other such assets, all as determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions; provided, however, that Operating Assets shall not be deemed to include any Excepted Property.

"Opinion of Bond Counsel" means a written opinion of counsel by a nationally recognized firm experienced in matters relating to municipal law and matters relating to the exclusion of interest payable on obligations of states and their instrumentalities and political subdivisions from gross income under federal tax law, and which is acceptable to the Bond Bank and the Trustee.

"Opinion of Counsel" means an opinion in writing signed by legal counsel who may be an employee of or counsel to the Board or any other Obligated Issuer and who is satisfactory to the Master Trustee in its reasonable discretion.

"Outstanding" or "outstanding under the Indenture" or "outstanding hereunder," when used with reference to the Series 2002 D Bonds, means, at any date as of which the amount of outstanding Series 2002 D Bonds is to be determined, the aggregate of all Series 2002 D Bonds authorized and issued by the Bond Bank and authenticated and delivered by the Trustee under the Indenture, including any Series 2002 D Bonds held by the Bond Bank, except:

(a) Series 2002 D Bonds canceled or surrendered to the Trustee for cancellation after purchase in the open market or because of payment at or redemption to maturity;

(b) Series 2002 D Bonds deemed to have been redeemed as provided in the Indenture; and

(c) Any Series 2002 D Bond in lieu of or in substitution for which another Series 2002 D Bond or Bonds shall have been issued by the Bond Bank and authenticated and delivered by the Trustee pursuant to the Indenture.

"Outstanding" means, when used in connection with Indebtedness (including Notes and Guaranties other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group), as of any time, Indebtedness issued or incurred and not paid or for which payment has not been provided by deposit of money or securities with the Trustee and shall not include Notes surrendered for exchange or Notes for which replacement Notes have been issued or which the Master Indenture otherwise provides shall be deemed not to be outstanding.

"Person" or "persons" shall mean any individual, corporation, partnership, association, joint stock company, joint venture, trust, unincorporated organization, or government or agency or political subdivision thereof.

"Program" means the program for making a loan to the Qualified Entity by the Bond Bank pursuant to the Act.

"Program Expenses" means the expenses authorized to be incurred by the Bond Bank in connection with the issuance of the Bonds, including reasonable fees and expenses of the Trustee, fees and expenses of counsel, bond counsel, professional consultants and other service professionals, costs of preparing and delivering Cash Flow Certificates pursuant to the Indenture, costs of determining and complying with any and all requirements to rebate amounts to the United States of America pursuant to the Indenture, and other incidental and related costs.

"Project" means the Qualified Entity's use of the proceeds of the Series 2002 D Bonds to (i) refund the Board Bank's outstanding Special Hospital Program Bonds, Series 1992 A (Hendricks Community Hospital Financing Program); (ii) finance certain renovations of, and acquisition, construction, and equipping of certain additions to, the existing Hendricks Community Hospital facilities; (iii) fund a debt service reserve fund for the Series 2002 D Bonds; and (iv) pay costs of issuance of the Series 2002 Note and the Series 2002 D Bonds.

"Project Fund" means the Fund of that name created under the Indenture.

"Property" means, when used in connection with a particular Person, any and all rights, title and interests of such Person in and to any and all property, whether real or personal, tangible or intangible, and wherever situated.

"Qualified Entity" means The Board of Trustees of Hendricks County Hospital, a "qualified entity," as defined in the Act, which is more particularly set forth in Appendix B to this Official Statement.

"Qualified Obligation" means a bond, note or evidence of indebtedness issued by the Qualified Entity, and which secures the Series 2002 D Bonds issued under the Indenture and which is more particularly set forth in Appendix D to this Official Statement and includes the Loan Agreement and the Series 2002 Note.

"Qualified Obligation Payments" means all principal and interest payments made or required to be made on the Qualified Obligation.

"Rebate Fund" means the Fund of that name created under the Indenture.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth day of the calendar month next preceding such Interest Payment Date.

"Redemption Account" means the Account by that name created by the Indenture.

"Redemption Price" means with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption prior to maturity.

"Refunding Bonds" means one or more series of refunding bonds issued on a parity with the Series 2002 D Bonds pursuant to a supplemental indenture under the Indenture.

"Refunding Indebtedness" means any Long-Term Additional Indebtedness issued for the purpose of refunding any principal and/or interest of any Outstanding Long-Term Indebtedness.

"Refunding Notes" means any additional Notes that constitute Refunding Indebtedness.

"Related Bonds" means the bonds issued by any state of the United States of America or any municipal corporation or other political subdivision formed under the laws thereof or any body corporate and politic or any constituted authority or any agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (a "governmental issuer"), the proceeds of which obligations are paid, loaned or otherwise made available to or for the benefit of (i) the Board or any other Obligated Issuer in consideration of the execution, authentication and delivery of a Note or Notes to such governmental issuer or Related Bond Trustee or (ii) any Person other than the Board or any other Obligated Issuer in consideration of the issuance to such governmental issuer or Related Bond Trustee (A) by such Person of any indebtedness or other obligation of such Person and (B) by the Board or any other Obligated Issuer of a Guaranty issued under the Master Indenture in respect of such indebtedness or other obligation.

"Related Bond Indenture" means any indenture pursuant to which a series of Related Bonds is issued or any supplement to a Related Bond Indenture pursuant to which a series of Related Bonds issued.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture.



"Related Issuer" means the governmental issuer of any issue of Related Bonds.

"Restricted Property" means any grant, gift, bequest, contribution or other donation and the proceeds thereof (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) which is specifically restricted by the donor or grantor, to a special object or purpose which precludes the use by an Issuer thereof for debt service or for financing the costs, or for paying the operating, maintenance and repair expenses, of facilities operated by an Issuer holding or entitled to such Property or the proceeds thereof.

"Revenues" means the income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, the Loan Agreement and the Series 2002 Note.

"Secured Indebtedness" means any Indebtedness secured by a Mortgage.

"Series 2002 D Bonds" means the Indiana Bond Bank Special Program Bonds, Series 2002 D (Hendricks Community Hospital Financing Program), issued pursuant to and secured by the Indenture.

"Series 2002 Note" means the Board of Trustees of Hendricks County Hospital Series 2002 Note, dated the date of the Series 2002 Bonds, and delivered pursuant to the Loan Agreement.

"Short-Term" means, when used in connection with Indebtedness other than Guaranties (including Notes), Indebtedness having an original maturity less than or equal to one (1) year and not renewable at the option of the Board or any Obligated Issuer for a term greater than one (1) year beyond the date of original issuance, but shall not include Interim Indebtedness.

"State" means the state of Indiana.

"Subordinated Indebtedness" means Indebtedness which, with respect to any issue thereof, is evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such Indebtedness (to which appropriate reference is made in the instruments evidencing such Indebtedness) substantially as set forth in the Master Indenture.

"Subsidiary" means, with respect to each Obligated Issuer, (a) a corporation, association, business trust, joint venture, partnership or similar entity organized on a for-profit basis under the laws of any state of which such Obligated Issuer possesses, directly or indirectly, in excess of fifty percent (50%) of the voting rights with respect thereto, provided that the ability to acquire additional voting rights shall not be counted until such rights are acquired, (b) a corporation, association, business trust, joint venture, partnership or similar entity organized on a non-profit basis under the laws of any state, the articles of incorporation, code of regulations, by-laws, articles of association or similar organizational documents of which require or expressly permit such Obligated Issuer to exercise control thereof, whether through appointment of officers or employees of such Obligated Issuer or any other Obligated Issuer to such organization's Governing Body on an ex officio basis (with voting rights), appointment of members of such

organization's Governing Body by such Obligated Issuer or authority of such Obligated Issuer to remove members of such organization's Governing Body, or any other means, or (c) any Subsidiary of any of the foregoing.

"Supplemental Master Indenture" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose of creating a particular series of Notes or a particular Guaranty issued hereunder or amending or supplementing the terms hereof.

"Tax Covenants" means certain certifications, covenants and representations of the Bond Bank and each of the Qualified Entities.

"Tax-Exempt Organization" means: (i) a body corporate and politic organized under the laws of the State; or (ii) a non-profit corporation organized under the laws of any state which is an organization described in Section 501(c)(3) of the Code or any successor section of the Code or of a successor statute.

"Total Expenses" means total operating and nonoperating expenses of the Board or any other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions and pension fund expenses not requiring, in the opinion of an independent actuary, cash contributions thereto.

"Trustee" means National City Bank of Indiana, Indianapolis, Indiana, a national banking association organized and existing under the laws of the United States of America, or any successor thereto, under the Indenture.

"Trust Estate" means the properties conveyed as security under the Indenture. "Unencumbered" means not subject to a Mortgage. "Unsecured Indebtedness" means any Indebtedness not secured by any Mortgage.

**APPENDIX F**

**SPECIMEN BOND INSURANCE POLICY**

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# Ambac

## Municipal Bond Insurance Policy

Ambac Assurance Corporation  
c/o CT Corporation Systems  
44 East Mifflin Street, Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza, New York, New York 10004  
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

### Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

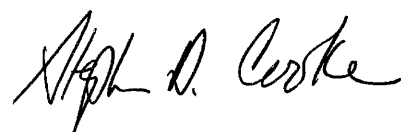
As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 66-0003 (7/97)



Authorized Officer